© 2012 International Monetary Fund

October 2012
IMF Country Report No. 12/288

Republic of Moldova: Staff Report for the 2012 Article IV Consultation, Fifth Reviews Under the Extended Arrangement and Under the Three-Year Arrangement Under the Extended Credit Facility, and Requests for Waivers for Non-Observance and Modification of Performance Criteria

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on May 17, 2012 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 September 17, 2012. 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 Public Information Notice (PIN)
- Press Release

The document(s) listed below 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*
Selected Issues

*Also included in Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT AND UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUESTS FOR WAIVERS FOR NON-OBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA

September 17, 2012

EXECUTIVE SUMMARY

Context, outlook, and risks. After the 2009 crisis, policies have improved markedly, backed by substantial foreign assistance. Notably, fiscal adjustment has reduced the large budget imbalance, monetary policy has tamed inflation, and structural reforms have spurred strong export expansion. These reforms led to impressive growth in 2010–11, but activity decelerated in 2012, reflecting the slowdown in the EU. The economy is highly exposed to further intensification of the euro area crisis via its dependence on remittances, exports, and capital inflows.

Key challenges and policies. (i) *Reach and maintain fiscal sustainability*: the authorities and staff agreed on measures to achieve the programmed fiscal adjustment by end-2012 and maintain a sustainable position in the medium term; (ii) *Stabilize inflation near target*: the current stance, which mitigates the demand slowdown, is consistent with the central bank's inflation target; (iii) *Strengthen financial and external stability:* the authorities are applying remedial measures to the troubled state-controlled bank and building up international reserves to cushion potential external shocks; (iv) *Foster investment- and export-oriented growth:* structural reforms will continue to focus on boosting competitiveness and improving the investment climate.

Program implementation. Most performance criteria (PCs), indicative targets, and structural benchmarks for end-March were met. However, the PC on the budget deficit, the indicative target on budget expenditure arrears, and the structural benchmark on debt restructuring were missed. The authorities are requesting a waiver for non-observance of the missed PC and modification of three end-September PCs owing to macroeconomic updates.

Approved By
Aasim Husain, Christian Mumssen

Discussions were held in Chişinău during May 3-17, 2012. The mission met with Prime Minister Filat, Deputy Prime Minister Lazăr, Minister of Finance Negruţa, Minister of Labor and Social Assistance Buliga, Minister of Education Şleahtiţchi, Minister of Justice Efrim, Governor of the National Bank of Moldova Drăguţanu, Deputy Governors Tabîrţă and Moloşag; and other senior officials and representatives of labor unions, business communities, civil society, and international financial institutions. The staff team comprised Messrs. Gueorguiev (head), Srour and Gorbanyov (EUR); Ms. Maslova (SPR), and Mr. Kinda (FAD). Mr. Mirzoev (resident representative) assisted the mission.
Mr. Manchev (OED) attended many meetings. The mission cooperated closely with World Bank staff.

CONTENTS

FIGURES

BOXES

ANNEX

RECENT DEVELOPMENTS

1. **After a severe recession in 2009, Moldova's economy grew at an impressive pace in 2010–11, supported by a strong reform program and a favorable external environment (Figure 1, Table 1, Box 1).** The cumulative 14 percent expansion was driven by buoyant private demand, financed by external inflows and domestic credit, and booming exports, promoted by trade liberalization, greater access to foreign markets, and new investment. The current account deficit widened to 12.6 percent of GDP by end-2011, as the surging domestic demand drove up imports, which eclipse exports in size. Core inflation stayed close to 5 percent, while rising food and energy prices pushed headline inflation up to high single digits (Figure 3). The unemployment rate declined to about 6¼ percent by end-2011, below its long-term average.

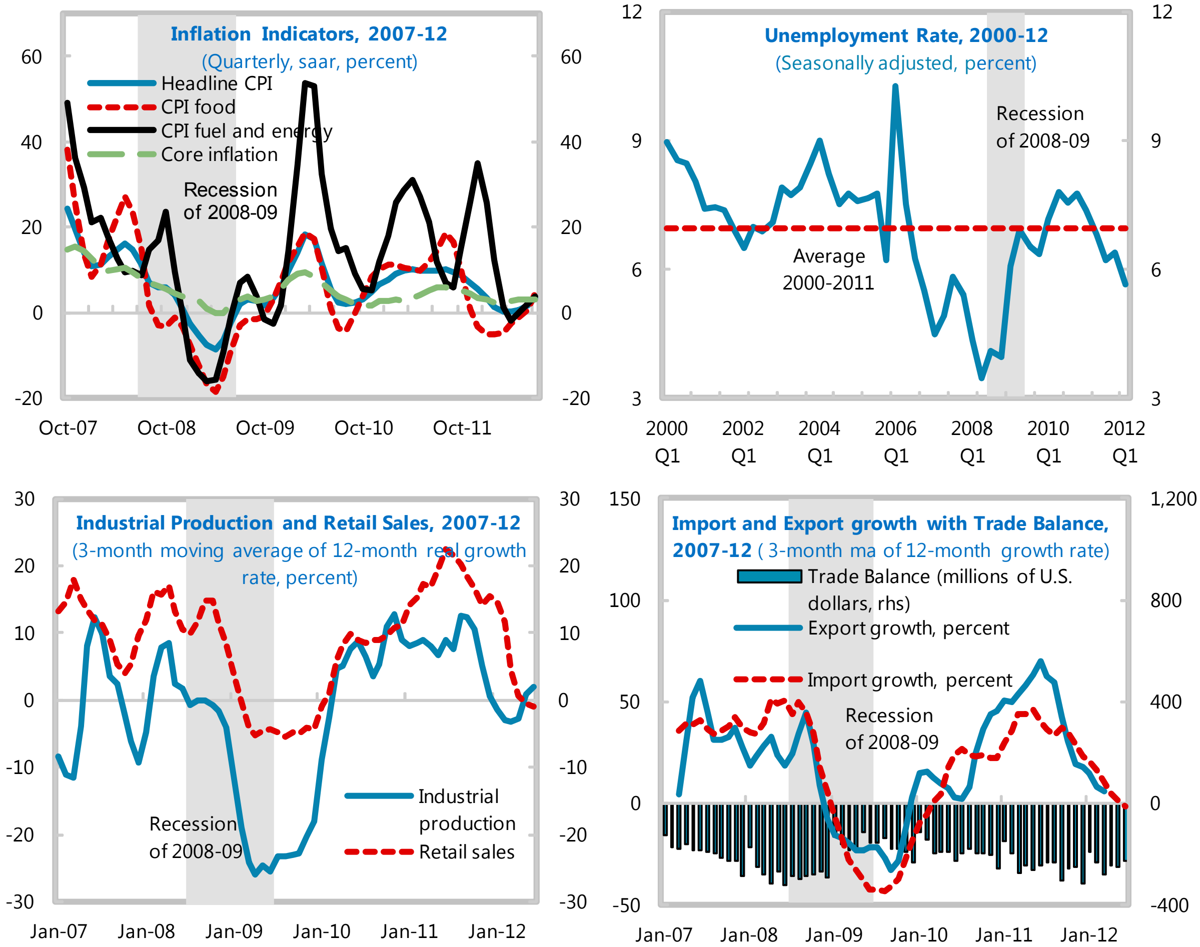
Box 1. Implementation of Past Fund Policy Recommendations

Macroeconomic policies and structural reforms have been mostly in line with the Fund's recommendations since the 2010 Article IV consultation, with four reviews completed so far under the ECF/EFF-supported program. In particular, the fiscal adjustment needed to restore sustainability, the appropriate monetary stance to keep inflation under control while supporting the recovery from the 2009 recession, and structural reforms to enhance macroeconomic and financial stability and promote export-led growth have generally been implemented, albeit the reduction of the large energy sector arrears—a fiscal risk—remains work in progress. Political considerations and vested interests have at times caused policy slippages and delayed implementation of structural reforms, but these were generally addressed by appropriate corrective measures. Data provision is adequate for surveillance, and Moldova subscribes to the SDDS (Informational Annex, section III).

2. **Economic activity slowed markedly in early 2012, reflecting the weakening external environment and harsh weather conditions.** Industrial production in the first quarter declined from a year ago, while export growth to the EU dwindled. Domestic demand also subsided in line with weakening remittances and capital inflows. As a result, GDP growth slowed to 1 percent y-o-y in Q1 2012. Inflation decelerated rapidly to 4 percent in July, also due to declining food prices earlier in the year. On the other hand, wages and credit growth remained resilient, and seasonally adjusted unemployment declined further to 5¾ percent. Some manufacturing companies reported shortages of skilled labor.

3. **The political situation has stabilized after the election of a President in March 2012, but competition within the ruling coalition remains a risk to the reform agenda.** The next parliamentary elections are due in early 2015, providing a window of opportunity for implementing much-needed structural reforms. However, economic policies remain susceptible to pressures from

special interest groups, as demonstrated by recent slippages and persisting sizable tax policy loopholes.



Source: National Bureau of Statistics; Haver Analytics; IMF, *World Economic Outlook*; and IMF staff estimates.

PERFORMANCE UNDER THE PROGRAM

4. **The program is broadly on track, with corrective measures agreed to address some slippages (SMEFP Tables 2 and 3).** Most quantitative targets for end-March 2012 and relevant structural benchmarks have been met. In particular, the Cabinet approved a mechanism to bring commitments on agricultural subsidies in line with available funds, and Parliament has passed with a slight delay legal amendments to continue the education sector reform. However, revenue shortfalls caused the performance criterion on the budget deficit for end-March 2012 to be missed by 0.2 percent of GDP; the indicative target on government arrears for end-March was missed as well, reflecting persisting problems in heating bill payments by the municipal administration of Chişinău; and the structural benchmark on the long-overdue parliamentary passage of legal amendments to

facilitate debt restructuring and speed up execution of collateral on bank loans was not met. Staff and the authorities agreed on corrective measures to overcome these policy slippages.

OUTLOOK AND RISKS

5. **The economy is expected to pick up in the near term**. GDP is projected to grow by 3 percent in 2012, as the impact from the slowdown in the EU is partially offset by resilient conditions in the CIS and the effect of the harsh winter on growth in Q1 dissipates. Growth should recover further in 2013 and beyond, underpinned by strengthening in partner country activity, investment in infrastructure, and increase in total factor productivity, albeit dampened by perennial labor migration abroad. In the absence of new shocks, inflation would be anchored around the National Bank of Moldova's (NBM) target of 5 percent, but it could hug the lower limit of the target band in the short run as energy prices are falling and the output gap turns negative (text table on p. 11). The authorities broadly concurred with this outlook, although the NBM expected downward pressures on inflation, from both demand and supply factors, to persist into 2013.

6. **However, external factors pose serious downside risks** (see Risk Assessment Matrix below). Strong intensification of the euro area crisis would significantly depress growth mainly through its impact on remittances, exports, and capital inflows, while delays in donor support could open large balance of payments gaps. The financial sector is not directly exposed owing to modest holdings of foreign assets and liabilities. Should an adverse scenario materialize, policies would need to balance between immediate stabilization needs, demand support, and medium-term objectives (Box 2).

Moldova: Risk Assessment Matrix[1]

(Scale – high, medium, or low)

Source of Risks	Relative Likelihood[2]	Impact if Realized
1. Strong intensification of the euro area crisis	**Medium** Heightened financial stress could worsen the outlook for the euro area. Fiscal tightening in major EA countries could have stronger-than-expected adverse effects on growth.	**High** Lower export demand, falling remittances, dearth or reversal of trade credit and other private financial inflows would induce a recession, high and difficult-to-finance budget deficit, exchange rate pressures, rising NPLs, and falling confidence in the banking sector.
2. Slowdown of world growth affecting Moldova's CIS trading partners	**Medium** Slowing worldwide demand could impact world commodity prices, affecting growth in CIS commodity-exporting countries.	
3. Sharp increase in world oil prices	**Medium** Geopolitical risks could lead to a sharp increase in oil prices.	**Medium** Higher energy prices could depress demand and raise inflation.
4. Deterioration of Moldova banking system's soundness.	**Medium** Soaring nonperforming loans and shareholder conflicts can undermine banks' soundness.	**High** Credit supply would dwindle, and the government might need to intervene to resolve bank failures.
5. Stall or reversal of structural reforms	**Low** Intensifying political competition and rent-seeking could delay or reverse structural reforms thus affecting growth potential and competitiveness.	**Medium** Deteriorating growth prospects and business climate would harm investment, halt poverty reduction, and complicate fiscal sustainability.
6. Decline in official external assistance	**Low** Budget cuts in Europe or setbacks in Moldova could curtail donor aid.	**Medium** Scaling down of development projects and budget financing.

[1] The Risk Assessment matrix (RAM) shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of the staff). The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this baseline.

[2] In case the baseline does not materialize.

Box 2. Spillovers from Adverse External Shocks and Policy Response

Strong intensification of the euro zone crisis could trigger a 2009-like recession in Moldova.[1] Such a shock would affect Moldova's very open economy mainly via a decline in the large remittances, exports, and private external funding, suppressing domestic demand and GDP growth. Trade and remittances from the commodity-exporting CIS economies, especially Russia, could dampen the shock if commodity price levels are sustained. Direct spillover effects through financial channels would be limited—the potential losses in foreign assets or outflows of foreign funding are small relative to total assets and liquidity, capital, and foreign exchange buffers for the banking sector as a whole. The decline in external inflows could heavily pressure the exchange rate, while dwindling revenue would strain the fiscal position. Rising nonperforming loans, a bank credit crunch, and a spike in lending interest rates would further plague the economy.

Under such an adverse scenario, facilitating an orderly exchange rate adjustment and stabilizing the financial sector should receive immediate policy priority. Exchange rate policy would need to balance the need for external adjustment on one hand with the risk of destabilizing balance sheets and inflation on the other. To this end, NBM's policy instruments—foreign exchange intervention, reserve requirements, and swap operations—should be geared toward allowing an orderly adjustment of the exchange rate while preventing its overshooting. Monetary and financial sector policies should ensure sufficient liquidity and depositor confidence in the banking sector, using interest rate, reserve requirements, liquidity loans to banks, and—if needed—strengthening of deposit insurance.

Next, policy should focus on managing demand and public finances to stabilize the economy without losing sight of medium-term objectives. As fiscal space is limited by financing constraints, fiscal policy should let the automatic stabilizers work while maintaining the targeted expenditure envelope supported by structural reforms. The budgeted significant expansion of public investment would underpin growth and employment. Given the shallow domestic debt market, some additional official resources may be needed to finance the resulting higher deficit. Monetary policy could quickly ease in anticipation of the fall in inflation, while allowing substantial exchange rate flexibility subject to the stability constraints outlined above. Enhanced bank supervision may also be necessary, with early calls for raising bank capital should loan losses begin to overwhelm the banks' currently robust capital base.

[1] See *Selected Issues*, Chapter III.

POLICY DISCUSSIONS

7. In the short term, the main tasks for macroeconomic policies are to: (a) reach fiscal sustainability in 2012 as planned; (b) calibrate monetary policy to stabilize inflation near target by mitigating the slowdown in demand; (c) preserve financial stability; and (d) strengthen buffers against external risks in view of the volatile international environment. In the medium term, the challenge will be to consolidate fiscal sustainability as official assistance will diminish, continue the transition to a market-based economy, and tap new sources of investment- and export-led growth.

A. Reaching and Sustaining Fiscal Sustainability

8. **Restoring fiscal sustainability this year—a key program goal—is within reach.** Procyclical policies prior to the global crisis opened up a substantial structural fiscal gap, covered since 2009 by very large official support (Box 3). A key objective of the authorities' IMF-supported program is to restore fiscal sustainability by end-2012, defined as a return to a structural balance that could be financed without recourse to exceptionally high official assistance. To this end, the authorities have already brought the structural deficit excluding grants down from 7½ percent of GDP in 2009 to 4¾ percent in 2011 with the support of comprehensive tax policy and expenditure reforms without harming GDP growth. Further reforms aimed to bring this indicator to about 3½ percent of GDP in 2012, a level that could be sustained under the current level of official assistance.

9. **However, revenue shortfalls and policy slippages in early 2012 put the programmed adjustment at risk.** Revenue in Q1 came significantly lower than expected, partly reflecting the weaker economy, and partly due to legislative loopholes and collection problems in VAT and excises as well as tax deferrals granted to agricultural producers. In addition, unbudgeted commitments, including a delay in social assistance reforms, and deferred external grants have compromised the budget (SMEFP ¶7). Furthermore, the Chişinău municipality approved a budget with nearly double the originally planned deficit and accumulated—rather than repaying—sizable expenditure arrears. Together with the unfavorable impact of macroeconomic developments, these slippages would have added 1.9 percent of GDP to the deficit in 2012 and about 1.3 percent of GDP thereafter in the absence of corrective measures (table).

Fiscal Deviations and Proposed Offsets in 2012 1/
(Percent of GDP)

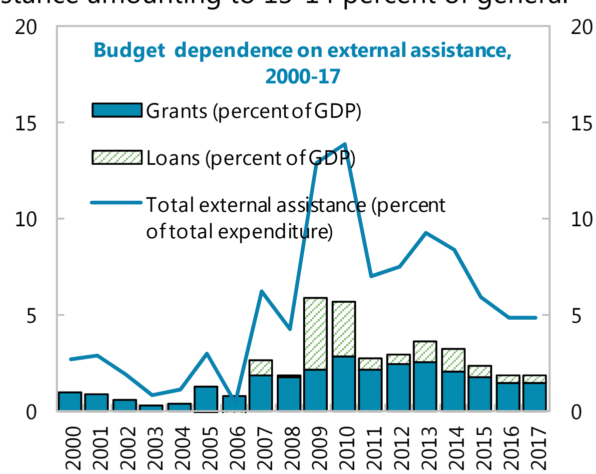
Estimated deviations	1.9
Impact of macroeconomic updates	0.4
Deferred external assistance (net)	0.2
Tax loopholes and administration issues	0.4
Expenditure slippages	0.9
Corrective measures	1.5
Revenue	0.5
Expenditure	1.0
Net (deficit increase)	0.4

Sources: Moldovan authorities; and IMF staff estimates.
1/ Change relative to the fourth review program targets.

10. **Discussions with the authorities focused on the challenge to complete the fiscal adjustment without undermining growth in a slowing economy**. The authorities reiterated their commitment to the program's fiscal adjustment objective and recognized the need to take corrective measures. At the same time they viewed the cyclical slowdown, the disruption caused by the introduction of new tax policies in 2012, and tax/customs administration issues at the origin of the revenue underperformance. They also underlined the imperative for the new spending commitments and the impracticality of fully halting spending related to the delayed grants. Staff recognized the impact of cyclical factors and the need for some upfront spending on grant-supported projects, but emphasized the need not to lose sight of the objective to reach fiscal sustainability in 2012, reinforced by the limited available financing.

Box 3. The Road to Fiscal Sustainability in Moldova[1]

Procyclical tax cuts and spending hikes prior to the global crisis opened up a large structural fiscal gap by 2009, necessitating official financial assistance amounting to 13-14 percent of general government expenditure. In 2010, the authorities embarked on an ambitious path to restore fiscal sustainability. Their strategy, underpinned by comprehensive structural reforms, appropriately focused on rationalizing current expenditure, while enhancing and better targeting social assistance to protect the most vulnerable and gradually raising public investment to support growth. Nevertheless, the 2012 budget still relies on a substantial level of external assistance, which is expected to decline in the medium term (chart).



Going forward, three structural reforms are key for preserving fiscal sustainability in view of declining official assistance while meeting the authorities' public spending objectives. *Reform of the pension system* that allows indexation of past earnings with inflation is necessary to stop the sharp drop of the replacement rates and address old-age poverty. This reform needs to be accompanied by an increase in the retirement age for women to make the increase in benefits affordable. *Public administration reform* aimed at reducing the large number of municipalities would lower operational costs and improve public service delivery by generating synergies. The *expansion of the ongoing education reform* in general education to the whole sector, in close cooperation with the World Bank, would improve quality and generate fiscal savings—even after recent reforms, the oversized education sector still accounts for over 8 percent of GDP, significantly above the levels in peer countries. These reforms could generate potential savings of about 2-3 percent of GDP.

[1] See *Selected Issues*, Chapter I.

11. **The authorities' amended 2012 budget puts the programmed fiscal consolidation back on track, while accommodating cyclical revenue weakness and supporting important reforms.** The authorities and staff agreed on a three-pronged fiscal strategy to reach a structural deficit broadly consistent with the program objectives without disrupting growth (SMEFP ¶7, 8):

- *Allowing full play of automatic stabilizers* in response to the cyclical downturn, reflected in an upward revision of the headline deficit target;
- *Putting in place a package of non-distortionary revenue measures*, mostly focusing on closing loopholes in the VAT and car registration regimes, higher license fees on gambling, and increased efforts to combat tax evasion;
- *Preserving the budgeted expenditure envelope* by retaining essential development expenditure associated with delayed external grants, cancelling the planned wage increases for public dignitaries, and overcoming delays in the social assistance reform to benefit from the already planned savings.

Moreover, the Chişinău municipality has committed to amend its budget in line with the general government fiscal target by adjusting current expenditure down, raising additional revenue to cover new investment spending, and clearing its heating arrears by end-August 2012.

Headline and Structural Fiscal Balances of the General Government, 2007-17

(Percent of GDP, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012		2013	2014	2015	2016	2017
						Fourth Rev. 1/	Rev. Prog.	Projection				
Headline revenue and grants	41.7	40.6	38.9	38.3	36.7	38.5	38.1	37.9	37.4	37.2	37.0	37.0
Domestic revenue	39.9	38.9	36.8	35.5	34.6	35.8	35.7	35.5	35.4	35.5	35.6	35.6
Tax revenue	34.0	33.4	32.0	31.0	30.8	32.3	31.7	32.0	32.0	32.0	32.2	32.2
Non tax revenue	5.9	5.4	4.8	4.6	3.8	3.5	4.0	3.5	3.5	3.4	3.4	3.4
Grants	1.8	1.7	2.1	2.8	2.1	2.7	2.4	2.5	2.0	1.7	1.4	1.4
Structural revenue	37.9	36.8	37.4	35.4	34.3	35.9	35.6	35.7	35.6	35.5	35.6	35.6
Automatic stabilizers	1.4	2.1	-1.3	-0.3	0.3	-0.1	-0.2	-0.2	-0.2	-0.1	0.0	0.0
One-off factors	0.6	0.0	0.6	0.5	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	42.0	41.6	45.2	40.8	39.1	39.4	39.4	39.1	38.4	38.1	37.9	37.7
Current	34.6	34.5	40.3	36.1	34.0	33.8	33.6	33.0	32.5	32.2	31.9	31.8
Capital	7.5	7.0	5.0	4.8	5.2	5.7	6.0	6.2	6.0	6.0	6.0	6.0
Headline fiscal balance (incl. grants)	-0.2	-1.0	-6.3	-2.5	-2.4	-0.9	-1.3	-1.1	-1.0	-0.9	-0.8	-0.8
Structural fiscal balance (incl. grants) 2/	-2.3	-3.3	-5.5	-2.6	-2.7	-0.8	-1.4	-0.9	-0.8	-0.9	-0.8	-0.7
Structural fiscal balance (excl. grants)	-4.2	-5.1	-7.5	-5.4	-4.8	-3.5	-3.8	-3.4	-2.8	-2.6	-2.3	-2.2
Memorandum:												
Output gap	3.9	6.2	-3.6	-1.0	0.9	-0.2	-0.7	-0.6	-0.6	-0.1	0.0	0.0

Source: IMF staff estimates.

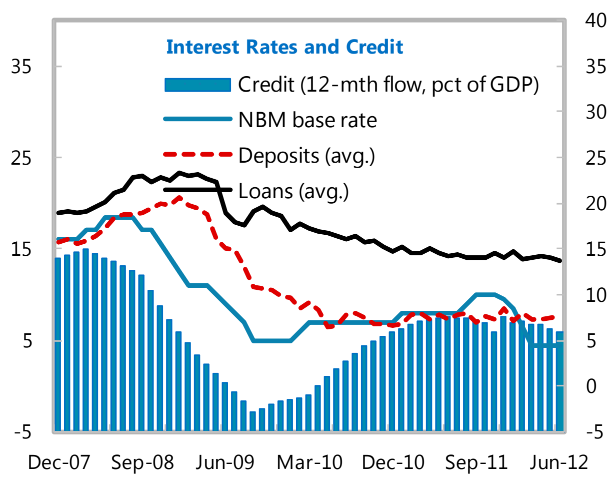
1/ The numbers for the fourth review were recalculated using the GDP currently projected for 2012.

2/ Structural fiscal balances are expressed in percent of potential GDP.

12. **Preserving fiscal sustainability despite declining foreign assistance is the main medium-term challenge (Box 3).** The authorities appropriately plan to maintain the headline fiscal deficit close to 1 percent of GDP over the medium term—a level that is consistent with regularly available financing—thus reducing the structural deficit excluding grants at roughly the pace of decline in grants (SMEFP ¶9). To this end, further rationalization of current expenditure and strengthening of tax revenue to the tune of 1¾ and ½ percent of GDP respectively will be needed to maintain space for capital outlays and targeted social assistance. The authorities broadly agreed with staff that the measures should include closure of VAT loopholes, reforms of the pension system to strengthen its insurance role while preserving its financial sustainability, and expansion of the education sector reform in close cooperation with the World Bank (SMEFP ¶9, 10). Staff welcomed the authorities' plan to introduce a rule-based approach to budgeting in the context of a medium-term budget framework to enhance fiscal discipline and transparency. However, recent sizable legal claims for compensation from the state for past judicial errors represent a fiscal risk. The claims, which are being currently reviewed by the authorities, could drain substantial budget resources in the medium term, and, if they materialize, would necessitate additional effort on the revenue side.

B. Stabilizing Inflation and Developing the Inflation Targeting Framework

13. **The NBM's aggressive easing of monetary policy was appropriate in view of rapidly falling inflation and moderating activity.** After some tightening in mid-2011, the NBM reversed course and ratcheted down the base rate by 550 basis points between November 2011 and February 2012. The authorities' sharp reaction was motivated by the plummeting inflation outlook (some 350 bps between August 2011 and February 2012) and the weak response of commercial bank lending rates (chart below).



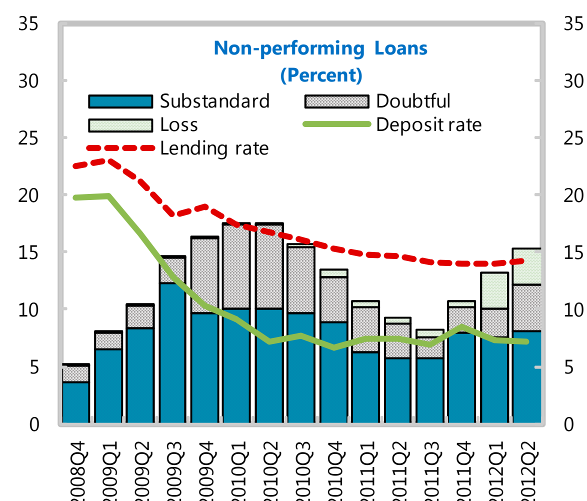
14. **Staff and the NBM agreed that a pause is warranted to assess the impact of the monetary easing and the latest economic developments.** In staff's view, the current monetary stance appeared consistent with the NBM's 5 percent target in the absence of further shocks. The authorities saw significant risks that inflation would fall well below its target over the policy-relevant horizon. Hence they were disposed to relax monetary policy further. However, they concurred that the enacted policy easing is still making its way through the financial system—lending rates had inched down only slightly so far, banks held

large amounts of liquidity in reserve, while credit extension was holding steady (Table 4). It was therefore agreed to refrain from further monetary policy action unless the downside risks to the economic outlook materialize or demand-driven inflation pressures re-emerge.

15. **The conduct of monetary policy would benefit from improved communication with the public and better calibration of responses to the nature of the shocks.** Inflation targeting in Moldova has contributed to reducing the rate and volatility of inflation since early 2010. That said, monetary policy remains complicated by a relatively weak transmission mechanism and volatile food and energy prices which make up nearly half of the CPI basket. The NBM has had at times to respond aggressively to energy and food price shocks to anchor inflation expectations and strengthen its reputation as an inflation targeter. However, to avoid excessive policy volatility, more weight should be given to demand-driven core inflation trends in determining the policy stance and in communications with the public. In case of supply shocks, staff recommended that the NBM consider their likely pass-through to core inflation as a guide to adjusting the policy stance. The NBM noted that they could not disregard persistent movements in headline inflation—the official monetary policy target—but agreed that assigning higher weight to the outlook for core inflation could help separate transitory from persistent supply shocks.

C. Preserving Financial Stability

16. **The banking sector is broadly sound, but developments at the majority state-owned Banca de Economii (BEM) are a concern.** Banks are generally liquid, well-capitalized, and profitable (Table 5). By September 2011, the effects of the 2009 recession on non-performing loans (NPLs) had largely dissipated. The increase since then (to 15.3 percent at end-June 2012) is mainly due to (i) a methodological change (the addition of fully provisioned off-balance sheet items), which added 2 percentage points; and (ii) the deterioration of the BEM's asset portfolio, which accounted for 3 percentage points. In February 2012, the NBM put the small Universalbank (less than 1 percent of banking system assets) in liquidation following liquidity and capital deficiencies, with little impact on the overall stability of the banking system. With the



Source: National Bank of Moldova.

exception of BEM and Universalbank, the overall sound conditions in the banking sector are shared by individual banks.

17. **Financial deepening has resumed, but action is needed to remove legal impediments.** Since mid-2010, healthy credit growth has resumed and the credit to GDP ratio has been slowly rising (Table 4). While remaining mindful of credit's effects on inflation and the current account deficit, the authorities and staff concurred that credit growth can exceed nominal GDP growth by a few percentage points to facilitate steady convergence toward credit's estimated equilibrium level of 80-85 percent of GDP from 38 percent at end-2011. However, financial deepening is impeded by significant legal constraints on the banks' ability to restructure their NPLs out of court and execute the associated collateral. The authorities have painstakingly prepared, with Fund TA, a comprehensive package of legal amendments to address these problems. Staff welcomed the authorities' plan to swiftly implement this long-overdue reform (SMEFP ¶15).

18. **The serious situation at BEM needs to be promptly addressed.** Risky lending practices and poor governance have significantly weakened BEM's asset portfolio and necessitated a large increase in provisions, bringing its capital adequacy ratio below the statutory minimum. Conflicts between shareholders, lack of coordination between regulatory institutions, and controversial judicial decisions have permitted the problem to fester. The bank, which accounts for about 13 percent of total assets in the banking sector and holds the largest number of individual deposits, requires urgent measures to repair its balance sheet and improve risk management. Drawing from MCM TA work, staff recommended decisive strengthening of the bank's management, including risk management capacity to ensure sound lending practices and continuing close oversight by the NBM (SMEFP ¶13). Subsequently, the newly elected Board of Directors has replaced the bank's management and is preparing further measures, including sales of foreclosed collateral, loan restructuring, and––after all other avenues are explored––possible recapitalization, to rehabilitate the bank. Staff encouraged the authorities to seek minimization of the cost to the public purse.

19. **The events at BEM and previous legally dubious takeover attempts of Moldovan banks call for improving the judicial system and achieving greater transparency of bank ownership.** The authorities agreed that a speedy passage of the prepared (with assistance from LEG) legal amendments to facilitate disclosure of bank owners, to introduce fit and proper criteria for financial institutions' directors and senior management and a more effective sanctioning regime, together with swift judicial reform, are essential to mitigate similar problems in the future. (SMEFP ¶14).

D. Strengthening Buffers Against External Risks

20. **The real effective exchange rate (REER) is moderately overvalued (Box 5).** Abundant capital inflows have pushed the REER up by 16 percent since early 2010, leading to an estimated overvaluation in the 5-15 percent range. The authorities and staff concurred that this does not pose an immediate threat to external competitiveness—Moldova's export market share has been rising since mid-2010—and should gradually correct itself under the floating exchange rate regime.

21. **However, despite an improved business climate, the current account deficit is expected to decline very gradually, remaining above its long-term equilibrium in the next few years.** The persistently large deficit reflects the availability of substantial external private and official funds supporting investment well in excess of the low savings. The deficit is projected to narrow gradually to about 9½ percent of GDP by 2017 and to its estimated equilibrium level of 6 percent in the long run, owing to greater access to the EU market spurred by the forthcoming free trade agreement, new export capacity, and higher public savings.

22. **The debt sustainability analysis (DSA) suggests continued low risk of public debt distress, but vulnerabilities are on the rise (Appendix I).** Public and publicly-guaranteed debt decreased from 31 percent of GDP in 2009 to 28 percent in 2011 and is projected to continue declining. However, private external debt remains high at about 44 percent of GDP, and is projected to increase over the medium-term, with a rising share of short-term debt. Also, arrears of the breakaway region of Transnistria to Moldovagaz for the natural gas from Russia supplied by Gazprom continue to increase, surpassing US$3.1 billion.[3]

23. **In view of the large current account deficit and external risks, further reserve accumulation is warranted.** Given risks of sudden stops in capital inflows, staff recommended keeping reserves over 85 percent of short-term debt for the time being (Box 4). The NBM concurred that a build-up of reserves is warranted in the current environment, but were concerned that large market purchases could hurt the credibility of the inflation targeting regime and destabilize the exchange rate in case of weaker foreign exchange inflows. To minimize these risks, they decided to accumulate reserves slowly, mopping up excess supply at the market exchange rate and noting that financial deepening should reduce reliance on external short-term debt—and thus the need to accumulate reserves—in the medium term.

[3] For an analysis of the genesis of this debt and its potential impact on Moldova's debt sustainability, see IMF Country Report No. 11/200.

Box 4. Competitiveness, Exchange Rate Assessment, and Reserve Adequacy[1]

Various methods show the REER overvalued by 5-15 percent relative to the underlying fundamentals. A long-term current account deficit of about 6 percent of GDP would support a sustainable external position without exceptional official assistance (background paper II).

Moldova: Estimates of overvaluation of the lei

Approach	Estimated overvaluation (in percent)
External sustainability	7.8 to 14.3
Macro balance	4.8 to 8.9
Equilibrium exchange rate	9.9

Sources: Staff estimates.

Table 1. Moldova: Position in International Rankings

Survey	Global Competitiveness Index	Doing Business Ranking[1]
Publisher	World Economic Forum	World Bank
Position in 2008	95 out of 134	108/103 out of 181
in 2009	n/a	87/94 out of 183
in 2010	94 out of 139	99/90 out of 183
in 2011	93 out of 142	81 out of 183

[1] The survey updates methodology each year and recalculates the previous year ranking. The table shows new/old ranking.

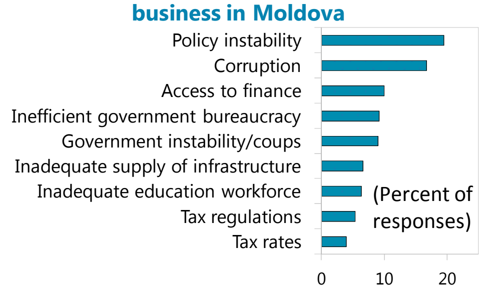
Wide-ranging structural reforms implemented in 2010–11 have boosted Moldova's competitiveness and improved the business climate. Moldova advanced from rank 99 to 81 in the World Bank's "Doing Business" survey in 2011/12 and came second in its list of top reformers for the year, albeit its ranking has only slightly improved according to the "Global Competitiveness Index". The accumulated stock of FDI equaled about half the country's GDP in 2011, surpassing many other economies in the region.

Further institutional reforms are necessary to attract new investments. The surveys suggest that policy instability, corruption, hindered access to finance, difficulties in trading across borders, and weak investment protection have become the most important hurdles to investment and growth.

Moldova: Reserve adequacy measures

	2011	2012	2013	2014
Gross official reserves (millions of U.S. dollars)	1,965	2,237	2,414	2,489
Months of imports of good and services	3.6	3.7	3.7	3.5
Percent of short-term debt at remaining maturity	86.8	85.3	76.8	70.3
Percent of short-term debt at remaining maturity plus current account deficit	61.2	61.7	58.2	54.4
Percent of the IMF composite measure (fixed)	121.0	126.6	120.0	112.7
Percent of the IMF composite measure (float)	163.9	172.0	161.6	151.7
Jeann and Ranciere (2006) optimal reserves	92.4	87.7	80.9	75.7
Goncalves (2007) optimal reserves	77.6	72.2	67.1	65.0

The most problematic factors for doing business in Moldova



Sources: World Economic Forum, *Global Competitiveness Report*.

A build-up of foreign reserves is warranted.

Reserves seem adequate based on the Fund's composite measures, and they covered about 85 percent of short-term debt at remaining maturity at end-2011. However, the coverage is projected to decrease rapidly over the medium-term without further action. Other measures which look at the effects of shocks on the economy also suggest presently a less-than-optimal level to withstand external shocks. Given the large share of trade credit in external debt and the presence of recurrent arrears for energy imports, maintaining at least 85 percent coverage of short-term debt would be needed to support external stability.

1 See *Selected Issues*, Chapter II.

E. Raising Potential Growth, Fighting Poverty, and Reducing Fiscal Risks

24. **Far-reaching reforms have boosted competitiveness and tapped new growth sources.** Moldova's main strategic tasks are to complete the transition to a market economy and accelerate real convergence to average Eastern European income levels. For this purpose, a second, investment- and export-led engine of growth is needed to supplement the traditional remittances-driven demand channel. Since late 2009, Moldova has embarked on deep and wide-ranging reforms in taxation, civil service, education, pension and social assistance, energy sector, external trade, and business regulation. These reforms have boosted Moldova's competitiveness, helping to attract new investment to agriculture and manufacturing, which sustained cumulative export growth of over 50 percent in 2010–11 (Table 2).

25. **However, staff and the authorities agreed that important remaining hurdles to investment need to be lifted.** Better protection of property rights, a transparent and stable policy environment, and more efficient trade and investment regime are essential to attract investors. Steady implementation of the judicial and customs reforms is a priority to improve the business climate and raise potential growth and incomes. Experience in other countries suggests that concerted reform efforts in these areas can be effective in attracting FDI and raising living standards within a few years (*Selected Issues*, Chapter II).

26. **The authorities plan to reduce the state's presence in the economy further.** Despite employment concerns, privatization is often necessary to lower prices, improve service, and ensure the financial viability of companies. In this context, staff welcomed the authorities' plan to expand the list of medium size companies subject to privatization, while actively pursuing divestiture of key large companies, including the telecommunications operator Moldtelecom, the carrier Air Moldova, and BEM (SMEFP ¶18).

27. **Poverty indicators have improved considerably in 2010–11.** Rationalization of low-priority budget spending opened space for an increase in targeted social assistance, allowing the guaranteed minimum income to vulnerable households to rise by 21 percent in 2010–11. Despite the 2009 recession, about half of the localized Millennium Development Goals for 2010 have been reached (Table 8). The new National Development Strategy elaborated for 2012–20 aims to reduce the poverty rate to less than 15 percent through faster growth and expanded coverage under the targeted social assistance scheme (SMEFP ¶19-20).

28. **More efforts are needed to advance energy sector restructuring and reduce fiscal risks.** Noting mixed progress with firming payment discipline so far, including in Chişinău's municipal

administration, staff welcomed the authorities' plan to improve collections and strengthen compliance with the established payment mechanism to prevent accumulation of future arrears (SMEFP ¶17). Moreover, staff advised the authorities to implement the energy sector restructuring strategy designed with the assistance of the World Bank that would reduce technological losses and help resolve historic arrears (over 2 percent of GDP), which present a large fiscal risk.

PROGRAM ISSUES

29. **The program design and monitoring mechanism will remain broadly unchanged.** The review schedule and phasing of disbursements is outlined in SMEFP Table 1. The prior actions and structural conditionality are summarized in SMEFP Table 3. To ensure that the program's fiscal objectives for 2012 will be reached, the 2012 budgets of the general government and the municipality of Chişinău will be amended as prior actions (PAs). Moreover, to secure sufficient revenue consistent with reaching and maintaining fiscal sustainability, PAs are set on the parliamentary passage of legal amendments to tighten the car registration regime and to close VAT loopholes, measures of critical importance to support the ongoing fiscal adjustment. The long-overdue parliamentary passage of legal amendments to facilitate debt restructuring between banks and their debtors—crucial for financial development and twice-missed structural benchmark—is also a PA. A new structural benchmark is proposed for the government approval of the medium-term budget framework to support fiscal sustainability over the medium term. In response to changes in the macroeconomic framework and to reflect the higher pace of reserve accumulation the authorities are requesting modifications of the PCs on the budget deficit and the NBM's net international reserves and net domestic assets for September 2012. The related indicative targets and adjustors for September and December 2012 are revised accordingly (SMEFP Table 2).

STAFF APPRAISAL

30. **Moldova enjoyed vigorous economic growth in 2010–11, supported by appropriate macroeconomic policies and structural reforms.** Implementation of the ECF/EFF-supported program over that period has been strong.

31. **The economy is slowing down in 2012 due to weakening external conditions, with serious downside risks.** GDP is expected to grow by 3 percent in 2012, and inflation should settle close to the NBM target of 5 percent. Economic deterioration in the EU could significantly depress growth. However, with a lower structural fiscal deficit, improved monetary policy framework, and an overall sound banking sector, Moldova is in a much better position to withstand shocks than in 2009.

32. **The amended 2012 budget puts fiscal consolidation back on track, while accommodating cyclical effects and supporting important reforms.** Strong corrective measures have been taken to close tax loopholes and offset unbudgeted expenditure commitments that emerged in early 2012. Continued improvements in tax and customs administration, and reforms in the key areas of the pension system, education, and public administration will be needed to maintain fiscal sustainability in the medium term as foreign assistance declines.

33. **The current monetary stance is consistent with the NBM's inflation target, while the conduct of monetary policy could be honed further.** After the aggressive easing in early 2012, the financial system has all it currently needs to support credit demand at advantageous interest rates. Further policy changes could be warranted if the economic outlook deteriorates or demand-driven inflation pressures re-emerge. To avoid unnecessary policy volatility, more weight should be given to demand-driven core inflation trends relative to supply shocks in determining the policy stance and in communications with the public.

34. **The external position of the economy gives rise to some concerns.** The large current account deficit, rising short-term private debt, and external risks call for augmentation of the NBM's international reserves. The REER is moderately overvalued relative to underlying fundamentals, although it is expected to self-correct gradually, in light of falling inflation, slowing capital inflows, and a higher pace of reserve accumulation.

35. **Moldova's financial system is stable overall, but the deteriorating situation at the majority state-owned BEM must be promptly addressed.** Banks have generally remained liquid, well-capitalized, and profitable. Swift legislation amendments to facilitate owner disclosure requirements and introduce fit and proper criteria for bank managers and board members would further strengthen confidence in the banking system. However, urgent progress is needed to repair BEM's balance sheet and improve its risk management. The new management, the Board of Directors, and the NBM should ensure that BEM cleans up its portfolio, quickly disposes of foreclosed collateral, and ends its risky lending practices before seeking recapitalization.

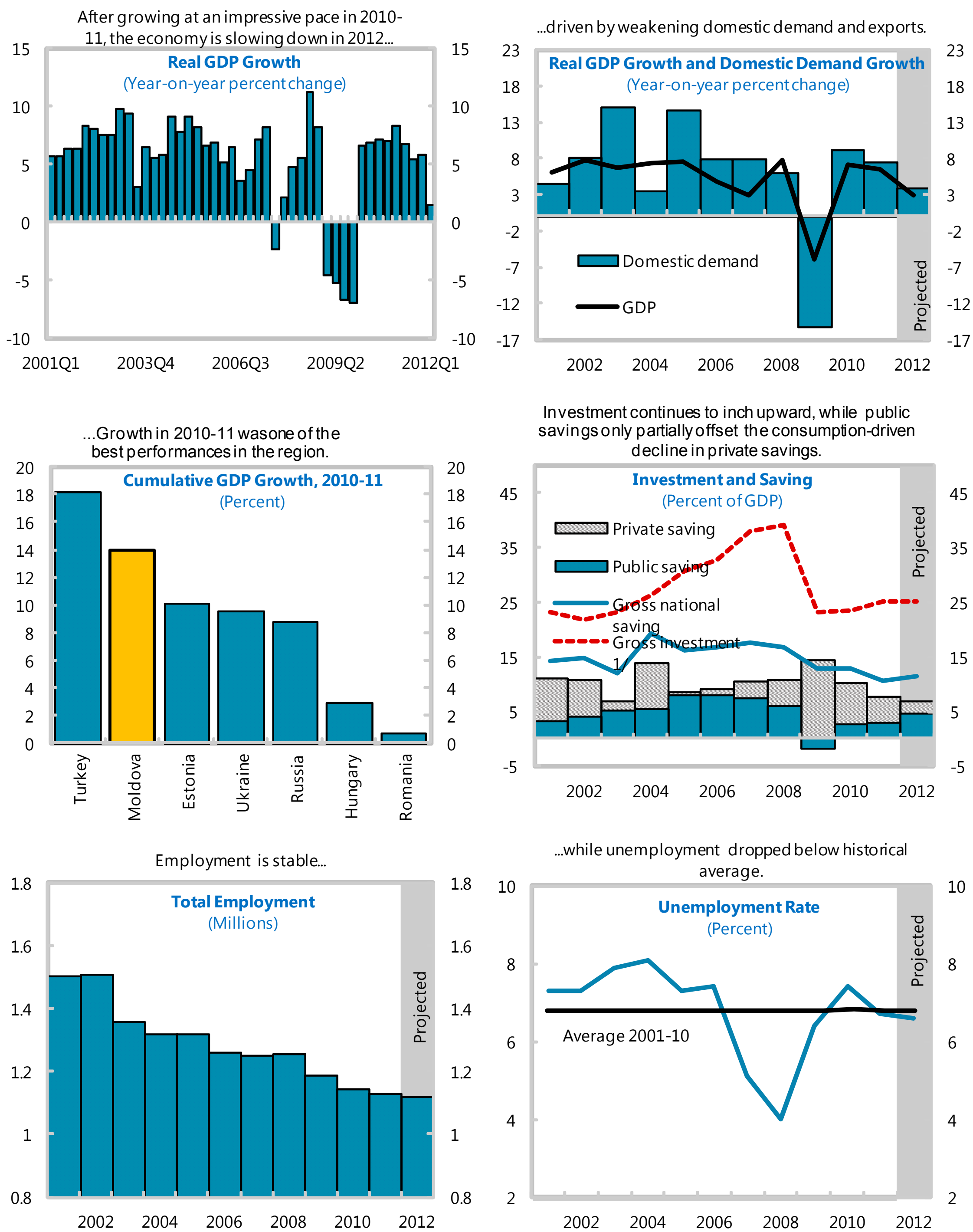
36. **The authorities' efforts to improve the business climate and promote exports have been productive, but important challenges lie ahead**. Wide-ranging structural reforms have enhanced competitiveness and fostered investment. However, further improvements in several key areas, including protection of property rights, a transparent and stable policy environment, effective governance, and a reliable judicial system, are essential to attract investors.

37. **A decisive energy sector reform should finally commence.** The authorities should persevere with establishing payment discipline among both households and public entities, and implement their energy sector restructuring strategy to reduce losses and resolve historic arrears.

38. **Staff recommends completion of the fifth reviews and approval of the requests for a waiver of non-observance of the end-March 2012 PC on the general government budget deficit and modifications of the end-September 2012 PCs on the general government budget deficit, the NBM's net domestic assets, and net international reserves.** Program implementation has been generally good. The authorities maintain the commitment and the capacity to implement their Fund-supported program. The slippages in early 2012 have been adequately addressed, and the policies planned for the remainder of 2012 and beyond, including the requested new targets, support the program's objectives. The capacity to repay the Fund remains strong.

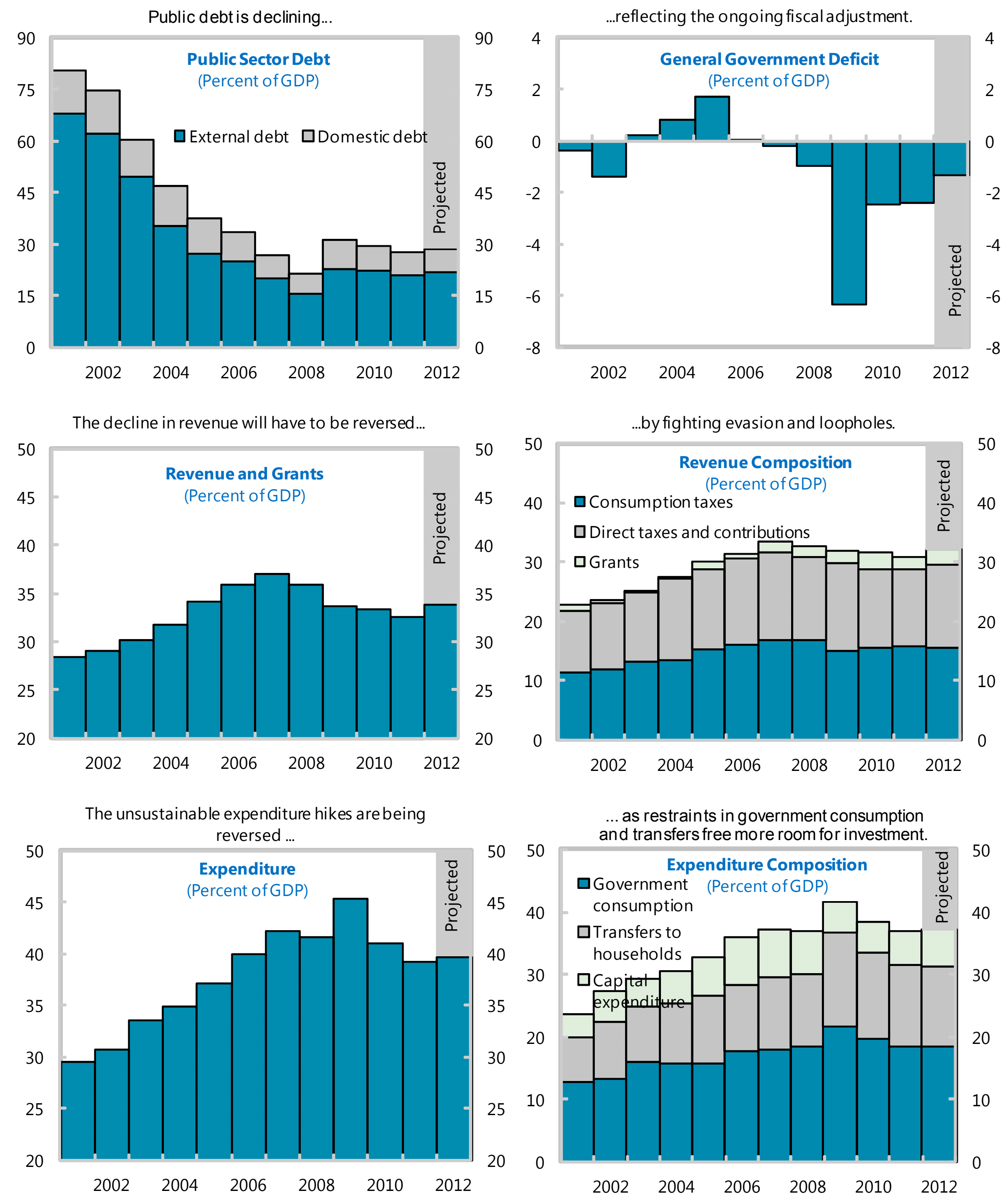
39. It is proposed that the next Article IV consultation with Moldova be held in accordance with the Executive Board decision on consultation cycles.

Figure 1. Moldova: Real Sector Developments, 2001-12



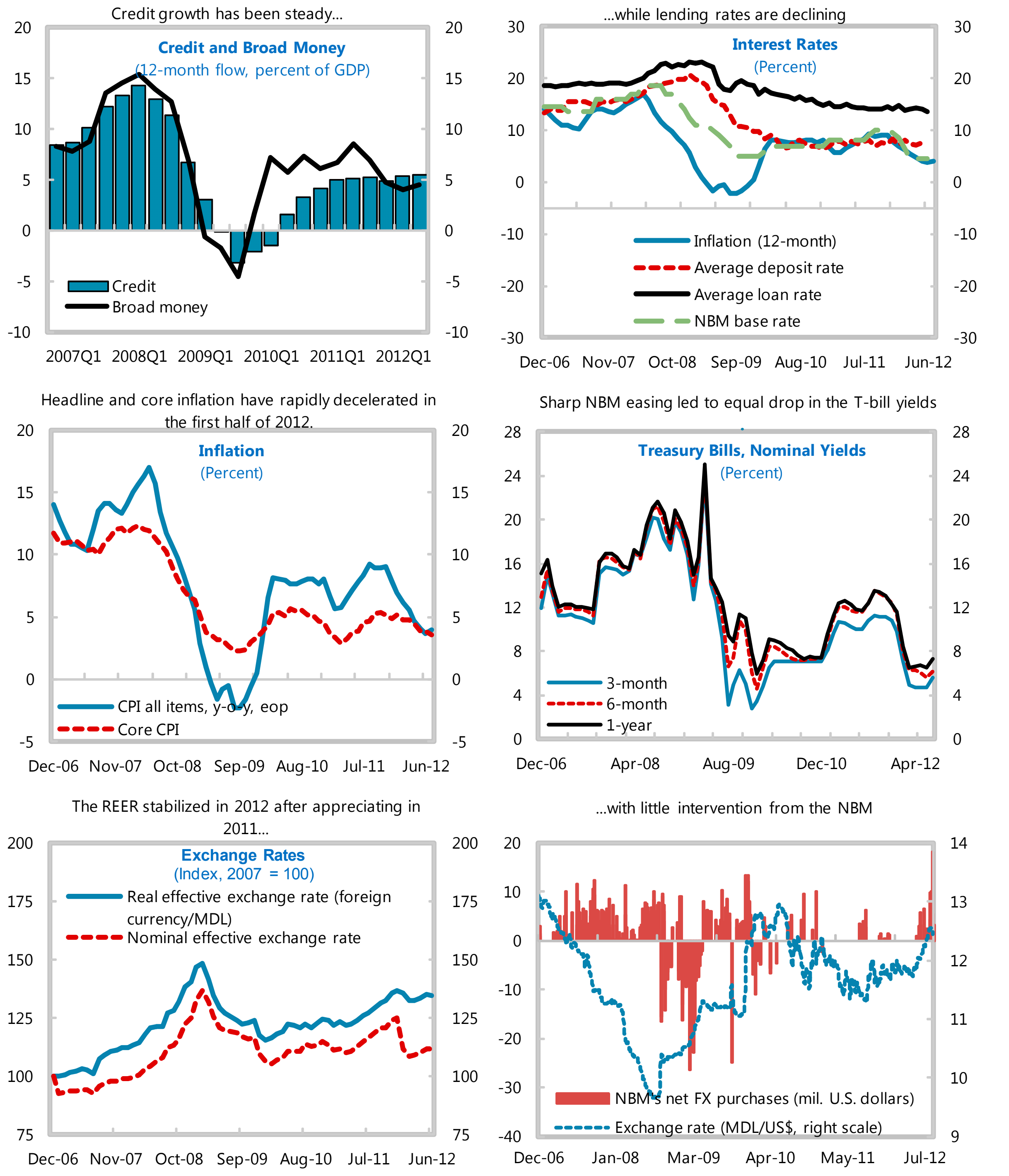
Sources: IMF, *World Economic Outlook*, April 2011; Moldovan authorities; and IMF staff calculations.
1/ Includes change in inventories.

Figure 2. Moldova: Fiscal Developments, 2001-12



Sources: Moldovan authorities; and IMF staff calculations.

Figure 3. Moldova: Money, Prices, and Interest Rates, 2006-12



Sources: National authorities; and IMF staff calculations.

Table 1. Moldova: Selected Indicators, 2008–17 1/

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Projection					
I. Real sector indicators	(Percent change, unless otherwise indicated)									
Gross domestic product										
Real growth rate	7.8	-6.0	7.1	6.4	3.0	5.0	5.0	5.5	5.3	5.3
Demand	6.0	-15.1	9.2	7.5	3.9	6.0	5.9	6.3	6.0	6.2
Consumption	5.7	-6.9	7.3	6.5	2.8	5.3	5.7	6.1	5.8	5.8
Private	5.8	-8.0	9.6	8.5	2.7	5.6	6.1	6.3	5.9	5.9
Public	5.0	-2.0	-1.1	-1.6	3.2	4.1	3.9	5.5	5.3	5.3
Gross capital formation	2.2	-30.9	17.2	10.7	8.5	9.5	6.9	7.2	7.2	8.1
Private	4.1	-32.1	18.5	8.8	6.0	8.0	8.0	8.0	8.0	8.0
Public	-4.6	-26.4	12.4	17.8	17.0	14.2	3.5	4.6	4.7	8.3
Nominal GDP (billions of Moldovan lei)	62.9	60.4	71.9	82.2	90.1	99.4	109.6	121.4	134.2	148.4
Nominal GDP (billions of U.S. dollars)	6.1	5.4	5.8	7.0	7.6	8.2	9.0	9.8	10.6	11.7
Consumer price index (average)	12.7	0.0	7.4	7.6	5.1	5.0	5.0	5.0	5.0	5.0
Consumer price index (end of period)	7.3	0.4	8.1	7.8	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	9.2	2.2	11.1	7.4	6.5	5.0	5.0	5.0	5.0	5.0
Average monthly wage (Moldovan lei)	2,530	2,748	2,972	3,194	3,550	3,950	4,350	4,800	5,350	5,900
Average monthly wage (U.S. dollars)	243	247	240	272	299	327	356	387	424	464
Unemployment rate (annual average, percent)	4.0	6.4	7.4	6.7	6.6	6.4	6.0	5.5	5.0	5.0
Saving-investment balance					(Percent of GDP)					
Foreign saving	17.2	9.8	9.8	12.6	12.2	11.7	10.9	10.4	9.9	9.5
National saving	16.8	12.8	12.9	10.6	11.5	12.7	13.5	14.2	14.8	15.5
Private	10.8	14.5	10.3	7.7	6.9	7.6	8.6	9.3	9.9	10.5
Public	6.0	-1.7	2.5	2.9	4.6	5.0	4.9	4.9	4.9	5.0
Gross investment	34.0	22.6	22.6	23.2	23.6	24.4	24.4	24.5	24.7	25.0
Private	27.0	17.6	17.9	18.0	17.9	18.2	18.4	18.7	18.9	19.2
Public	7.0	5.0	4.8	5.2	5.7	6.2	6.0	5.9	5.8	5.8
II. Fiscal indicators (general government)										
Primary balance (cash)	0.2	-5.0	-1.7	-1.6	-0.5	-0.4	-0.3	-0.4	-0.3	-0.3
Overall balance	-1.0	-6.3	-2.5	-2.4	-1.3	-1.1	-1.0	-0.9	-0.8	-0.8
Stock of public and publicly guaranteed debt	21.5	31.9	29.8	28.0	28.8	27.2	24.6	22.6	20.5	19.3
III. Financial indicators	(Percent change, unless otherwise indicated)									
Broad money (M3)	15.9	3.2	13.4	10.6	11.7	12.5	10.2	10.8	10.6	10.6
Velocity (GDP/end-period M3; ratio)	2.0	1.8	1.9	2.0	2.0	1.9	1.9	1.9	1.9	1.9
Reserve money 2/	18.4	-0.2	15.9	11.1	12.2	12.7	…	…	…	…
Credit to the economy 3/	20.7	-4.2	17.4	22.1	11.2	14.6	…	…	…	…
IV. External sector indicators	(Millions of U.S. dollars, unless otherwise indicated)									
Current account balance	-1041	-534	-568	-880	-924	-964	-978	-1013	-1051	-1104
Current account balance (percent of GDP)	-17.2	-9.8	-9.8	-12.6	-12.2	-11.7	-10.9	-10.4	-9.9	-9.5
Remittances and compensation of employees (net)	1,796	1,124	1,273	1,549	1,635	1,830	2,016	2,258	2,532	2,838
Gross official reserves	1,672	1,480	1,718	1,965	2,237	2,414	2,489	2,646	2,879	3,049
Gross official reserves (months of imports)	5.0	3.9	3.4	3.6	3.7	3.7	3.5	3.3	3.3	3.3
Exchange rate (Moldovan lei per USD, period avge)	10.4	11.1	12.4	11.7	…	…	…	…	…	…
Exchange rate (Moldovan lei per USD, end of period)	10.4	12.3	12.2	11.7	…	…	…	…	…	…
Real effective exch.rate (average, percent change)	19.5	1.7	-6.0	6.1	3.9	0.5	1.4	1.1	1.1	1.1
Real effective exch.rate (end-year, percent change)	24.4	-17.6	7.3	9.3	-1.2	1.6	1.4	1.1	1.1	1.1
External debt (percent of GDP) 4/	55.2	65.5	67.0	64.6	69.7	72.9	72.5	72.6	72.4	71.6
Debt service (percent of exports of goods and services)	14.2	19.9	18.6	14.9	16.2	13.2	15.1	16.1	15.7	16.7

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.
2/ Adjusted for changes in reserve requirement ratios.
3/ Adjusted for exchange rate changes and write-offs.
4/ Includes private and public and publicly guaranteed debt.

Table 2. Moldova: Balance of Payments, 2008–17

(Millions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Projection					
Current account balance	-1,041	-534	-568	-880	-924	-964	-978	-1,013	-1,051	-1,104
Merchandise trade balance	-3,223	-1,949	-2,220	-2,864	-3,070	-3,295	-3,454	-3,697	-3,986	-4,346
Exports	1,646	1,327	1,590	2,282	2,464	2,790	3,179	3,601	4,079	4,609
Of which: wine and alcohol	196	159	178	222	220	238	248	268	281	295
Imports	-4,869	-3,276	-3,810	-5,147	-5,534	-6,085	-6,633	-7,299	-8,065	-8,955
Services balance	7	-40	-70	-26	-35	-60	-54	-63	-44	-44
Exports of services	844	673	701	869	929	1,036	1,150	1,278	1,424	1,590
Imports of services	-837	-713	-771	-895	-963	-1,096	-1,205	-1,341	-1,468	-1,635
Income balance	599	303	499	568	658	775	827	939	1,057	1,214
Compensation of employees	763	497	684	863	928	1,041	1,156	1,305	1,474	1,663
Income on direct and portfolio investment	-140	-138	-135	-246	-200	-200	-234	-254	-287	-327
Income on other investment	-24	-56	-50	-49	-70	-66	-94	-112	-129	-123
Current transfer balance	1,577	1,151	1,223	1,442	1,523	1,617	1,702	1,808	1,922	2,072
Remittances	1,033	627	589	686	707	789	860	954	1,058	1,175
Budget transfers	136	103	137	148	207	213	211	205	196	207
Other transfers	408	421	496	608	609	615	631	649	667	690
Capital and financial account balance	1,272	91	386	750	922	966	984	1,116	1,271	1,277
Capital account balance	-15	-18	-28	-30	-15	-16	-18	-20	-21	-23
Financial account balance	1,286	108	415	780	938	982	1,002	1,136	1,292	1,300
Foreign direct investment balance	695	139	194	253	289	332	455	529	616	699
Portfolio investment and derivatives	7	-5	5	5	7	7	8	8	9	10
Other investment balance	584	-25	216	522	642	643	539	598	667	591
Loans	358	-43	69	188	234	258	324	379	413	449
General government, net	-21	-3	4	11	26	40	29	26	55	67
Private sector, net	379	-39	65	178	208	219	295	353	359	381
Other capital flows	226	18	147	334	408	384	216	219	254	142
Errors and omissions	67	50	39	88	0	0	0	0	0	0
Overall balance	298	-394	-143	-42	-1	2	5	103	220	172
Financing	-298	394	143	42	1	-2	-5	-103	-220	-172
Gross international reserves (increase: "-")	-452	201	-294	-278	-272	-176	-76	-157	-233	-168
Use of Fund credit, net	12	-15	175	153	138	55	-30	-45	-86	-109
Monetary authorities	12	-15	53	129	138	55	-30	-12	-25	-40
Purchases	38	0	61	135	154	77	0	0	0	0
Repurchases	-25	-15	-8	-6	-16	-22	-30	-12	-25	-40
General government	0	0	122	24	0	0	0	-33	-61	-69
Purchases	0	0	122	24	0	0	0	0	0	0
Repurchases	0	0	0	0	0	0	0	-33	-61	-69
Exceptional financing	142	208	262	167	135	119	100	99	99	105
Memorandum items:	(Percent of GDP, unless otherwise indicated)									
Gross official reserves (millions of U.S. dollars) 1/	1,672	1,480	1,718	1,965	2,237	2,414	2,489	2,646	2,879	3,049
Months of imports of good and services	5.0	3.9	3.4	3.6	3.7	3.7	3.5	3.3	3.3	3.3
Percent of short term debt and CA deficit	76.4	64.1	60.4	61.2	61.7	58.2	54.4	52.9	51.4	53.3
Pct of short-term debt at remaining maturity	100.9	85.1	88.0	86.8	85.3	76.8	70.3	67.9	65.0	63.0
Pct of the IMF composite measure (fixed) 2/	127.3	115.6	118.0	121.0	126.6	120.0	112.7	109.0	107.9	105.0
Pct of the IMF composite measure (floating) 2/	176.0	156.1	159.0	163.9	172.0	161.6	151.7	146.6	144.7	141.0
Current account balance	-17.2	-9.8	-9.8	-12.6	-12.2	-11.7	-10.9	-10.4	-9.9	-9.5
Goods and services trade balance	-53.1	-36.6	-39.4	-41.3	-40.9	-40.8	-39.1	-38.5	-37.9	-37.6
Export of goods and services	41.1	36.8	39.4	45.0	44.7	46.6	48.3	49.9	51.7	53.1
Import of goods and services	-94.2	-73.4	-78.8	-86.3	-85.6	-87.4	-87.4	-88.4	-89.6	-90.7
Foreign direct investment balance	11.5	2.5	3.3	3.6	3.8	4.0	5.1	5.4	5.8	6.0
	(Percent change of amounts in U.S.dollars, unless otherwise indicated)									
Exports of goods	19.8	-19.4	19.9	43.5	8.0	13.2	14.0	13.3	13.3	13.0
Exports of services	34.3	-20.2	4.2	23.9	6.9	11.5	11.1	11.1	11.4	11.7
Imports of goods	32.6	-32.7	16.3	35.1	7.5	10.0	9.0	10.0	10.5	11.0
Imports of services	28.8	-14.8	8.1	16.1	7.7	13.8	9.9	11.3	9.5	11.4
Remittances and compensation	26.5	-37.4	13.2	21.7	5.5	11.9	10.2	12.0	12.1	12.1
Remittances	25.0	-39.3	-6.1	16.4	3.0	11.6	9.1	10.9	10.9	11.0
Compensation of employees	28.7	-34.8	37.5	26.3	7.5	12.1	11.1	12.9	12.9	12.9
Debt service (pct of exports of goods and services)	14.2	19.9	18.6	14.9	16.2	13.2	15.1	16.1	15.7	16.7

Sources: National Bank of Moldova; and IMF staff estimates.

1/ Includes revaluation changes, which were not captured by changes of gross official reserves in the BOP.

2/ The IMF composite measures are calculated as a weighted sum of short-term debt, other portfolio liabilities, broad money, and exports in percent of GDP, with different weights for "fixed" and "floating" exchange rate regime. Official reserves are recommended to be in the range of 100-150 percent of the appropriate measure.

Table 3. Moldova: General Government Budget, 2009–17

(Millions of Moldovan lei, unless otherwise indicated)

	2009	2010	2011	2012		2013	2014	2015	2016	2017
				Fourth review	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	23,506	27,540	30,159	34,662	34,346	37,690	40,999	45,125	49,696	54,874
Revenues	22,218	25,540	28,454	32,264	32,190	35,240	38,811	43,034	47,753	52,764
Tax revenues	19,325	22,261	25,323	29,089	28,614	31,796	35,026	38,862	43,163	47,715
Profit tax	443	484	571	1,775	1,775	2,025	2,232	2,473	2,734	3,023
Personal income tax	1,465	1,545	1,769	2,003	2,021	2,184	2,408	2,668	2,949	3,261
VAT	7,596	9,146	10,464	11,417	10,957	12,228	13,467	14,957	16,645	18,337
Excises	1,540	2,074	2,667	3,025	3,010	3,306	3,645	4,038	4,464	4,936
Foreign trade taxes	905	1,080	1,179	1,292	1,310	1,444	1,589	1,768	1,985	2,222
Other taxes	414	459	452	530	496	545	601	699	812	942
Social fund contributions	5,587	5,985	6,583	7,234	7,234	8,049	8,865	9,811	10,848	11,987
Health fund contributions	1,377	1,487	1,638	1,811	1,811	2,015	2,220	2,449	2,727	3,007
Non-tax revenues	1,035	1,697	1,456	1,494	1,926	1,694	1,867	2,068	2,287	2,529
Revenues of special funds	1,858	1,583	1,676	1,681	1,650	1,750	1,918	2,103	2,302	2,520
Grants	1,288	2,000	1,704	2,398	2,156	2,450	2,187	2,091	1,943	2,110
Budget support grants 1/	804	1,327	923	981	715	1,077	913	924	934	1,017
Foreign financed projects grants	334	584	663	1,381	1,386	1,353	1,274	1,167	1,009	1,093
Other grants 2/	150	89	119	35	55	20	0	0	0	0
Expenditure and net lending	27,343	29,326	32,117	35,499	35,539	38,825	42,106	46,260	50,811	55,991
Current expenditure	24,367	25,986	27,905	30,467	30,245	32,764	35,618	39,070	42,846	47,153
Wages	7,000	7,317	7,700	8,745	8,634	9,329	10,079	11,165	12,345	13,649
Goods and services	6,067	6,735	7,300	8,032	7,909	8,773	9,663	10,704	11,823	13,071
Health fund	3,071	3,368	3,616	3,920	3,900	4,261	4,698	5,204	5,748	6,355
Other goods and services	2,996	3,367	3,685	4,112	4,010	4,512	4,965	5,500	6,075	6,715
Interest payments	843	558	673	817	736	732	744	691	683	695
Domestic	639	374	486	618	528	468	438	421	413	401
Foreign	204	184	188	200	208	264	306	270	271	294
Transfers	10,156	11,082	11,945	12,514	12,581	13,538	14,700	16,031	17,466	19,153
Transfers to economy	1,197	1,094	1,057	1,084	1,072	1,148	1,266	1,403	1,551	1,715
Transfers to households	8,959	9,988	10,888	11,430	11,509	12,390	13,434	14,629	15,915	17,438
Social fund	7,603	8,603	9,234	9,817	9,898	10,664	11,519	12,534	13,597	14,862
Other transfers	1,356	1,385	1,654	1,614	1,611	1,725	1,915	2,095	2,319	2,576
Other current expenditure	302	295	287	358	386	392	432	479	529	585
Net lending	-28	-90	-62	-97	-122	-88	-58	-45	-35	-19
Capital expenditure	3,004	3,431	4,273	5,129	5,415	6,150	6,547	7,235	8,000	8,858
Overall balance (cash)	-3,837	-1,786	-1,959	-837	-1,193	-1,136	-1,107	-1,135	-1,115	-1,117
Primary balance (cash)	-2,994	-1,229	-1,285	-19	-457	-404	-364	-444	-432	-422
Change in arrears (+, increase)	212	-187	-65	-24	-24	0	0	0	0	0
Overall balance (commitments)	-4,049	-1,599	-1,894	-813	-1,169	-1,136	-1,107	-1,135	-1,115	-1,117
Primary balance (commitments)	-3,206	-1,041	-1,221	5	-433	-404	-364	-444	-432	-422
Financing	3,837	1,786	1,959	837	1,193	1,136	1,107	1,135	1,115	1,117
Budget financing	3,382	1,167	1,062	89	428	-453	-592	-723	-461	-917
Central government	2,919	1,011	606	165	286	-594	-814	-1,030	-561	-967
Net domestic	1,073	-528	825	164	340	-376	-690	-478	364	316
Net foreign (excl. project loans) 3/	1,774	1,441	-355	-259	-314	-469	-363	-781	-1,075	-1,382
Privatization	72	98	136	260	260	250	240	230	150	100
Local governments, *of which:*	245	-1	352	-76	85	42	122	207	100	50
Privatization	170	237	212	120	220	165	111	100	100	50
Social fund	26	213	125	0	0	0	0	0	0	0
Health fund	193	-57	-21	0	57	100	100	100	0	0
Project loans	456	619	897	748	765	1,588	1,699	1,858	1,577	2,034
Memorandum items:				(Billions of Moldovan lei)						
Public and publicly guaranteed debt	19.3	21.4	23.0	26.7	25.9	27.0	27.0	27.4	27.5	28.6
General Government debt, *of which:*	17.3	18.8	19.0	20.1	20.2	20.6	20.8	21.3	21.7	23.2
Domestic debt	5.1	5.3	5.6	5.9	6.1	6.0	5.7	5.6	5.4	6.1
Domestic expenditure arrears	0.5	0.3	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0
External debt	11.7	13.3	13.2	14.0	13.9	14.6	15.1	15.7	16.3	17.1
Other public and publicly guaranteed debt 4/	2.0	2.6	4.0	6.6	5.7	6.5	6.2	6.1	5.9	5.4

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

1/ In 2009, an EU project grant of €15 million was reclassified as budget support given that no actual expenditure took place.

2/ Includes internal grants and grants to other public institutions (such as public universities).

3/ Projections include direct budget support from the IMF of about US$122 mln. (SDR 80 mln.) in 2010 and US$23 mln. (SDR 15 mln.) in 2011.

4/ Includes mainly central bank liabilities to the IMF.

Table 3. Moldova: General Government Budget, 2009–17 (Concluded)

(Percent of GDP, unless otherwise indicated)

	2009	2010	2011	2012 1/		2013	2014	2015	2016	2017
				Fourth review	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	38.9	38.3	36.7	38.5	38.1	37.9	37.4	37.2	37.0	37.0
Revenues	36.8	35.5	34.6	35.8	35.7	35.5	35.4	35.5	35.6	35.6
Tax revenues	32.0	31.0	30.8	32.3	31.7	32.0	32.0	32.0	32.2	32.2
Profit tax	0.7	0.7	0.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Personal income tax	2.4	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
VAT	12.6	12.7	12.7	12.7	12.2	12.3	12.3	12.3	12.4	12.4
Excises	2.5	2.9	3.2	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Foreign trade taxes	1.5	1.5	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Other taxes	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6
Social fund contributions	9.2	8.3	8.0	8.0	8.0	8.1	8.1	8.1	8.1	8.1
Health fund contributions	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Non-tax revenues	1.7	2.4	1.8	1.7	2.1	1.7	1.7	1.7	1.7	1.7
Revenues of special funds	3.1	2.2	2.0	1.9	1.8	1.8	1.8	1.7	1.7	1.7
Grants	2.1	2.8	2.1	2.7	2.4	2.5	2.0	1.7	1.4	1.4
Budget support grants 2/	1.3	1.8	1.1	1.1	0.8	1.1	0.8	0.8	0.7	0.7
Foreign financed projects grants	0.6	0.8	0.8	1.5	1.5	1.4	1.2	1.0	0.8	0.7
Other grants 3/	0.2	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	45.2	40.8	39.1	39.4	39.4	39.1	38.4	38.1	37.9	37.7
Current expenditure	40.3	36.1	34.0	33.8	33.6	33.0	32.5	32.2	31.9	31.8
Wages	11.6	10.2	9.4	9.7	9.6	9.4	9.2	9.2	9.2	9.2
Goods and services	10.0	9.4	8.9	8.9	8.8	8.8	8.8	8.8	8.8	8.8
Health fund	5.1	4.7	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Other goods and services	5.0	4.7	4.5	4.6	4.4	4.5	4.5	4.5	4.5	4.5
Interest payments	1.4	0.8	0.8	0.9	0.8	0.7	0.7	0.6	0.5	0.5
Domestic	1.1	0.5	0.6	0.7	0.6	0.5	0.4	0.3	0.3	0.3
Foreign	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2
Transfers	16.8	15.4	14.5	13.9	14.0	13.6	13.4	13.2	13.0	12.9
Transfers to economy	2.0	1.5	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Transfers to households	14.8	13.9	13.2	12.7	12.8	12.5	12.3	12.1	11.9	11.8
Social fund	12.6	12.0	11.2	10.9	11.0	10.7	10.5	10.3	10.1	10.0
Other transfers	2.2	1.9	2.0	1.8	1.8	1.7	1.7	1.7	1.7	1.7
Other current expenditure	0.5	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net lending	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Capital expenditure	5.0	4.8	5.2	5.7	6.0	6.2	6.0	6.0	6.0	6.0
Overall balance (cash)	-6.3	-2.5	-2.4	-0.9	-1.3	-1.1	-1.0	-0.9	-0.8	-0.8
Primary balance (cash)	-5.0	-1.7	-1.6	0.0	-0.5	-0.4	-0.3	-0.4	-0.3	-0.3
Change in arrears (+, increase)	0.4	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitments)	-6.7	-2.2	-2.3	-0.9	-1.3	-1.1	-1.0	-0.9	-0.8	-0.8
Primary balance (commitments)	-5.3	-1.4	-1.5	0.0	-0.5	-0.4	-0.3	-0.4	-0.3	-0.3
Financing	6.3	2.5	2.4	0.9	1.3	1.1	1.0	0.9	0.8	0.8
Budget financing	5.6	1.6	1.3	0.1	0.5	-0.5	-0.5	-0.6	-0.3	-0.6
Central government	4.8	1.4	0.7	0.2	0.3	-0.6	-0.7	-0.8	-0.4	-0.7
Net domestic	1.8	-0.7	1.0	0.2	0.4	-0.4	-0.6	-0.4	0.3	0.2
Net foreign (excl. project loans) 4/	2.9	2.0	-0.4	-0.3	-0.3	-0.5	-0.3	-0.6	-0.8	-0.9
Privatization	0.1	0.1	0.2	0.3	0.3	0.3	0.2	0.2	0.1	0.1
Local governments, *of which:*	0.4	0.0	0.4	-0.1	0.1	0.0	0.1	0.2	0.1	0.0
Privatization	0.4	0.3	0.3	0.1	0.2	0.2	0.1	0.1	0.1	0.0
Social fund	0.0	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health fund	0.3	-0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Project loans	0.8	0.9	1.1	0.8	0.8	1.6	1.6	1.5	1.2	1.4
Memorandum items:										
Public and publicly guaranteed debt	31.9	29.8	28.0	29.6	28.8	27.2	24.6	22.6	20.5	19.3
General Government debt, *of which:*	28.6	26.2	23.2	22.3	22.4	20.7	19.0	17.5	16.1	15.7
Domestic debt	8.4	7.4	6.8	6.5	6.8	6.0	5.2	4.6	4.0	4.1
Domestic expenditure arrears	0.8	0.4	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0
External debt	19.4	18.4	16.1	15.6	15.4	14.7	13.8	13.0	12.1	11.5
Other public and publicly guaranteed debt 5/	3.3	3.6	4.9	7.3	6.4	6.5	5.6	5.0	4.4	3.7

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

1/ In percent of GDP currently projected for 2012.

2/ In 2009, an EU project grant of €15 million was reclassified as budget support given that no actual expenditure took place.

3/ Includes internal grants and grants to other public institutions (such as public universities).

4/ Projections include direct budget support from the IMF of about US$122 mln. (SDR 80 mln.) in 2010 and US$23 mln. (SDR 15 mln.) in 2011.

5/ Includes mainly central bank liabilities to the IMF.

Table 4. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2010–13

(Millions of Moldovan lei, unless otherwise indicated)

	2010	2011				2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
								Projection					
National Bank of Moldova													
Net foreign assets	18,372	18,838	18,926	19,359	19,146	19,638	20,433	21,133	21,583	21,972	22,110	22,760	23,246
NFA (convertible)	18,386	18,887	18,993	19,426	19,188	19,688	20,454	21,193	21,646	22,035	22,173	22,823	23,313
Gross reserves	20,877	21,359	22,070	23,457	23,025	24,496	25,246	26,792	27,202	28,531	28,590	29,165	29,596
Reserve liabilities	-2,490	-2,472	-3,077	-4,030	-3,836	-4,807	-4,792	-5,599	-5,556	-6,496	-6,417	-6,342	-6,282
Net domestic assets	-6,257	-6,184	-5,524	-5,296	-4,801	-5,564	-5,350	-5,437	-5,488	-5,788	-5,058	-5,105	-5,115
at program exchange rates	-7,496	-7,151	-6,844	-6,761	-6,804	-7,409	-7,235	-7,080	-6,998	…	…	…	…
Net claims on general government	-1,067	-528	-91	-305	323	731	811	367	349	1,085	585	61	80
Credit to banks	-4,646	-5,026	-4,978	-4,449	-5,323	-5,879	-5,624	-5,077	-4,995	-5,823	-4,593	-4,163	-4,218
Other items (net)	-544	-629	-455	-542	199	-416	-538	-727	-842	-1,050	-1,024	-1,003	-976
Reserve money	12,115	12,654	13,402	14,063	14,345	14,074	15,083	15,696	16,095	16,183	17,052	17,655	18,131
Adjusted for change in reserve requirement 1/	12,115	12,196	12,924	13,219	13,456	13,701	14,689	15,696	16,095	16,183	17,052	17,655	18,131
Currency in circulation	10,108	9,731	10,486	10,510	10,895	10,674	11,230	11,615	12,082	11,973	12,862	13,032	13,546
Banks' reserves	2,007	2,919	2,914	3,552	3,450	3,400	3,852	4,082	4,013	4,210	4,190	4,623	4,585
Required reserves 1/	1,295	1,835	1,907	2,351	2,387	2,479	2,563	2,622	2,728	2,750	2,968	3,181	3,268
Excess reserves 2/	712	1,084	1,006	1,202	1,063	921	1,289	1,460	1,284	1,461	1,222	1,442	1,317
Monetary survey													
Net foreign assets	18,121	17,481	17,213	17,532	16,450	16,708	18,207	18,278	18,597	18,228	18,834	19,716	18,977
NFA (convertible)	18,376	17,821	17,600	17,902	16,845	17,090	18,862	18,694	19,023	18,657	19,286	20,184	19,414
Of which: commercial banks	-11	-1,066	-1,393	-1,524	-2,344	-2,598	-1,591	-2,499	-2,623	-3,378	-2,887	-2,640	-3,899
Foreign assets of commercial banks	4,615	3,558	3,419	3,614	3,538	3,689	4,543	3,657	3,598	3,271	3,507	3,620	3,377
Foreign liabilities of commercial banks	-4,626	-4,624	-4,812	-5,138	-5,881	-6,288	-6,135	-6,155	-6,221	-6,650	-6,394	-6,259	-7,276
NFA (non-convertible)	-254	-340	-387	-371	-395	-382	-656	-417	-426	-429	-452	-467	-437
Net domestic assets	18,930	20,203	22,309	22,774	24,527	24,309	24,999	26,457	27,160	27,781	29,644	30,476	32,515
Net claims on general government	-187	299	871	679	1,512	1,801	1,696	1,561	1,632	2,328	1,789	1,225	2,328
Credit to economy	26,915	27,482	28,826	30,077	30,963	31,953	32,960	34,750	35,644	35,954	38,426	39,913	40,997
Moldovan lei	15,529	15,452	15,888	16,937	17,174	17,994	18,543	19,561	19,818	19,961	21,271	22,452	22,865
Foreign exchange	11,387	12,030	12,938	13,140	13,788	13,959	14,417	15,189	15,826	15,992	17,155	17,461	18,132
in U.S. dollars	937	1,007	1,111	1,106	1,175	1,180	1,177	1,215	1,266	1,269	1,362	1,386	1,439
Other items (net)	-7,799	-7,578	-7,388	-7,982	-7,948	-9,446	-9,656	-9,854	-10,116	-10,500	-10,571	-10,662	-10,810
Broad money (M3)	37,051	37,684	39,522	40,305	40,977	41,017	43,206	44,735	45,757	46,009	48,478	50,192	51,492
Broad money (M2: excluding FCD)	24,771	25,002	26,418	27,141	28,265	28,275	29,541	30,230	31,455	31,496	33,936	35,620	36,751
Currency in circulation	10,108	9,731	10,486	10,510	10,865	10,674	11,244	11,615	12,082	11,973	12,862	13,032	13,546
Total deposits	26,944	27,953	29,036	29,796	30,113	30,343	31,962	33,120	33,675	34,036	35,616	37,161	37,946
Domestic currency deposits	14,662	15,269	15,929	16,630	17,400	17,601	18,297	18,615	19,373	19,523	21,073	22,589	23,205
Foreign currency deposits (FCD)	12,280	12,682	13,104	13,165	12,712	12,741	13,665	14,505	14,302	14,513	14,543	14,572	14,742
in U.S. dollars	1,010	1,062	1,126	1,108	1,083	1,077	1,115	1,160	1,144	1,152	1,154	1,157	1,170
Memorandum items:													
Reserve money growth (percent change; annual)	15.9	22.6	28.0	27.8	18.4	11.2	12.5	11.6	12.2	15.0	13.1	12.5	12.7
Adjusted for change in reserve requirement 1/	15.9	18.2	23.4	20.2	11.1	8.3	9.6	11.6	12.2	15.0	13.1	12.5	12.7
Broad money growth (percent change; annual)	13.4	15.4	19.9	15.9	10.6	8.8	9.3	11.0	11.7	12.2	12.2	12.2	12.5
Credit to economy (percent change, annual) 3/	12.7	15.8	15.8	16.1	15.0	16.3	14.3	15.5	15.1	12.5	16.6	14.9	15.0
in foreign exchange	7.9	21.6	33.5	23.2	25.6	17.0	5.5	7.0	7.7	7.6	15.7	14.0	13.7
Credit to economy (percent change, annual) 4/	17.4	21.6	22.9	22.4	22.1	21.3	15.7	14.4	11.2	9.4	15.2	14.5	14.6
in local currency	22.0	20.4	18.2	17.0	14.3	19.4	18.8	16.6	16.1	10.9	14.7	14.8	15.4
in foreign exchange 4/	11.7	23.1	27.6	28.2	32.1	23.7	12.1	11.8	5.8	7.6	15.7	14.0	13.7
Gross international reserves (millions of U.S. dollars)	1,718	1,788	1,896	1,975	1,965	2,074	2,179	2,248	2,267	2,353	2,363	2,415	2,443
Percent of domestic-currency broad money	84	85	84	86	81	87	85	89	86	91	84	82	81
Net international reserves (millions of U.S. dollars)	1,513	1,589	1,642	1,659	1,626	1,672	1,784	1,778	1,804	1,804	1,817	1,832	1,924
at program exchange rates	1,594	1,614	1,652	1,699	1,752	1,751	1,816	1,857	1,883	…	…	…	…
Broad money multiplier	3.1	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.8	2.8	2.8	2.8	2.8
Share of foreign currency deposits in all deposits	45.6	45.4	45.1	44.2	42.2	42.0	42.8	43.8	42.5	42.6	40.8	39.2	38.8
Exchange rate (Moldovan lei per U.S. dollar, average)	12.1	11.9	11.6	11.6	11.8	11.8	12.1	…	…	…	…	…	…
Exchange rate (Moldovan lei per U.S. dollar, actual/projecte	12.2	11.9	11.6	11.9	11.7	11.8	12.3	…	…	…	…	…	…
Reserve requirement ratio on deposits (percent) 1/	8	11	11	14	14	14	14	14	14	14	14	14	14

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

1/ The reserve requirement ratio on lei and foreign currency deposits was increased from 8 percent to 11 percent in February 2011, and to 14 percent in July 2011 while liabilities with maturities over two years were exempt of reserve requirements.

2/ Includes cash in vaults of commercial banks and amounts in correspondent accounts.

3/ Historical data as reported by the NBM. Not adjusted for exchange rate changes and write-offs.

4/ Adjusted for exchange rate changes and write-offs.

Table 5. Moldova: Financial Sector Indicators, 2008–12

(End-of-period; percent, unless otherwise indicated)

	2008	2009	2010				2011				2012	
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Size												
Number of banks	16	15	15	15	15	15	15	15	15	15	14	14
Total assets of the banking system (billions of Moldovan lei)	39.1	39.9	39.3	39.7	40.9	42.3	43.5	44.8	46.3	47.7	50.9	53.6
Total loans of the banking system (percent of GDP)	39.4	37.1	30.9	32.6	34.8	35.5	32.1	33.6	35.3	36.3	34.4	35.5
Total assets of the banking system (percent of GDP)	62.2	66.1	54.7	55.2	58.4	58.8	52.7	54.4	56.4	58.1	56.4	59.4
Capital adequacy												
Capital adequacy ratio 1/	32.2	32.3	32.6	31.2	31.2	30.1	29.7	28.2	28.5	30.4	28.4	25.6
Liquidity												
Liquid assets (billions of Moldovan lei)	12.0	15.3	14.3	13.8	13.9	14.4	14.4	14.2	14.7	15.8	16.2	17.3
Total deposits (billions of Moldovan lei)	27.2	24.4	26.3	26.1	27.3	28.7	29.6	30.7	31.7	32.6	33.1	35.2
Liquidity ratio 2/	44.1	62.6	54.5	52.8	50.9	50.3	48.8	46.4	46.3	48.5	48.8	49.2
Liquid assets share of total assets	30.6	38.3	36.5	34.8	34.0	34.2	33.2	31.8	31.7	33.2	31.8	32.3
Asset quality												
Gross loans (billions of Moldovan lei)	24.8	22.4	22.2	23.5	24.4	25.5	26.5	27.7	29.0	29.8	31.0	32.0
Nonperforming loans (billions of Moldovan lei)	1.3	3.7	3.9	4.1	3.8	3.4	2.8	2.6	2.4	3.2	4.1	4.9
Substandard				2.3	2.1	2.3	1.7	1.6	1.6	2.4	2.3	2.6
Doubtful				1.7	1.4	1.0	1.0	0.8	0.5	0.7	0.8	1.3
Loss				0.0	0.1	0.1	0.1	0.1	0.2	0.1	1.0	1.0
Loan loss provisions (billions of Moldovan lei)	1.2	2.2	2.3	2.4	2.3	2.1	2.0	1.9	1.9	2.1	2.9	3.3
Provisions to non-performing loans	94.2	59.2	58.8	59.5	60.1	63.2	71.8	76.0	79.3	65.0	71.2	67.3
Nonperforming loans as a share of total loans	5.2	16.3	17.4	17.5	15.7	13.3	10.7	9.2	8.1	10.7	13.2	15.3
Substandard	3.6	9.6	10.0	10.0	8.6	8.9	6.3	5.7	5.7	8.0	7.5	8.1
Doubtful	1.5	6.5	7.4	7.3	5.7	3.9	3.9	2.9	1.8	2.2	2.5	4.0
Loss	0.1	0.2	0.1	0.1	0.3	0.6	0.5	0.5	0.7	0.5	3.1	3.2
Loan-loss provisioning/gross loans	4.9	9.7	10.2	10.4	9.4	8.4	7.7	7.0	6.5	6.9	9.4	10.3
Profitability												
Return on equity	19.9	-2.1	8.9	9.9	6.9	3.0	10.1	10.3	11.5	11.5	14.6	13.4
Return on assets	3.5	-0.4	1.6	1.8	1.2	0.5	1.7	1.8	2.0	2.0	2.9	2.7
Interest rates												
Domestic currency average lending rate	21.0	18.6	17.3	16.5	15.8	14.8	14.6	14.2	14.1	14.0	14.1	13.7
Domestic currency average deposit rate	18.1	9.8	9.1	6.7	7.4	6.5	7.9	7.3	6.9	8.5	7.3	7.6
Interest rate spread, domestic currency	2.9	8.8	8.1	9.8	8.4	8.2	6.7	6.9	7.2	5.5	6.7	6.1
Foreign currency average lending rate	14.6	10.6	10.2	10.5	9.8	9.4	9.1	8.9	8.9	7.7	9.4	7.9
Foreign currency average deposit rate	9.6	3.8	3.4	3.3	3.5	3.3	3.4	3.6	3.9	3.8	4.2	3.8
Interest rate spread, foreign currency	5.0	6.8	6.8	7.2	6.3	6.1	5.7	5.3	4.9	3.8	5.2	4.1
182-day T-bill (nominal yield)	19.2	6.1	8.5	7.5	7.3	7.4	12.1	11.6	13.5	12.3	6.3	5.7
Foreign currency assets and liabilities												
Total liabilities (billions of Moldovan lei)	32.1	33.0	32.2	32.5	33.5	35.0	36.0	37.4	38.5	39.6	40.7	43.4
Foreign currency liabilities (billions of Moldovan lei)	15.4	17.1	16.3	16.0	16.9	17.7	18.2	19.0	19.6	20.0	20.5	22.1
Share of foreign currency denominated liabilities in total	48.0	51.7	50.4	49.2	50.5	50.7	50.6	51.0	50.8	50.4	50.4	50.8
Foreign currency denominated assets	12.9	16.1	15.0	15.1	17.3	17.2	17.7	18.4	20.0	19.3	20.9	22.5
Share of foreign currency denominated assets in total	33.0	40.2	38.3	38.1	42.3	40.8	40.6	41.1	43.1	40.5	41.1	41.9
Share of foreign currency deposits in total deposits	41.1	49.3	47.5	46.2	45.9	45.6	45.4	45.1	44.2	42.2	42.0	42.8
Share of foreign currency denominated loans in total loans	41.2	44.7	43.4	43.0	41.5	42.3	43.8	44.9	43.7	44.5	43.7	43.7

Source: National Bank of Moldova.

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

Table 6. Moldova: External Financing Requirements and Sources, 2009-13

(Millions of U.S. dollars, unless otherwise indicated)

	2009	2010	2011	2012	2013
1 Total requirements	**2,559**	**2,858**	**3,647**	**3,855**	**4,074**
Current account deficit (excluding current transfers and compensation of employees)	2,183	2,474	3,190	3,375	3,622
Of which: exports of goods	1,327	1,590	2,277	2,464	2,790
Imports of goods	-3,276	-3,810	-5,146	-5,534	-6,085
Debt amortization	377	384	456	480	452
Public and publicly guaranteed	45	46	62	55	59
Private	332	338	394	425	393
2 Identified financing sources	**2,359**	**3,153**	**3,925**	**3,815**	**3,974**
Capital Account	-18	-28	-30	-15	-16
Foreign direct investment (net)	139	194	253	289	333
Portfolio investment	-5	5	5	7	7
New borrowing	334	453	645	637	617
Public	41	50	73	4	5
Private	293	403	572	633	612
Other capital flows	18	147	334	408	384
Current transfers	1,151	1,223	1,442	1,501	1,601
Worker's remittances	627	589	686	706	789
Official transfers	103	137	148	186	197
Other transfers	421	496	608	609	615
Compensation of employees	497	684	863	928	1,040
Use of Fund credit	-15	175	153	-16	-22
Errors and omissions	50	39	93	0	0
Exceptional financing	208	262	167	75	30
3 Gross international reserve accumulation (+: increase)	**-201**	**294**	**278**	**272**	**176**
4 Financing gap	**…**	**…**	**…**	**312**	**275**
Millions of SDR	…	…	…	205	183
Percent of quota	…	…	…	167	148
5 Prospective financing	**…**	**…**	**…**	**312**	**275**
IMF	…	…	…	154	77
Millions of SDR	…	…	…	100	50
Percent of quota	…	…	…	81	40
Other donors	…	…	…	158	197
European Commission	…	…	…	64	104
World Bank	…	…	…	72	57
EIB/EBRD/CEDB	…	…	…	22	36

Sources: Moldovan authorities; and IMF staff projections.

31 INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

Table 7. Moldova: Indicators of Fund Credit, 2008-20 1/

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Projection								
Fund obligations based on existing credit (millions of SDRs)													
Principal	16.0	9.7	5.5	3.9	10.5	14.2	19.3	29.1	52.6	57.5	53.7	50.2	44.6
Charges and interest	0.9	0.5	0.3	0.8	1.3	1.5	2.0	1.9	1.7	1.4	1.1	0.8	0.5
Fund obligations based on existing and prospective credit													
Principal	16.0	9.7	5.5	3.9	10.5	14.2	19.3	29.1	55.6	70.8	71.2	67.8	62.1
Charges and interest	0.9	0.5	0.3	0.8	1.8	2.2	2.9	2.8	2.6	2.2	1.8	1.3	0.9
Total obligations based on existing and prospective credit													
Millions of SDRs	16.9	10.3	5.8	4.7	12.4	16.4	22.2	31.9	58.2	73.0	73.0	69.1	63.0
Millions of U.S. dollars	26.7	15.8	8.9	7.4	19.1	25.3	34.2	49.2	89.6	112.4	112.3	106.3	96.9
Percent of exports of goods and services	1.1	0.8	0.4	0.2	0.6	0.7	0.8	1.0	1.6	1.8	1.6	1.4	1.2
Percent of debt service 2/	32.7	18.1	11.9	8.5	19.9	23.0	28.4	40.5	55.6	51.7	48.2	43.7	37.7
Percent of GDP	0.4	0.3	0.2	0.1	0.3	0.3	0.4	0.5	0.8	1.0	0.9	0.8	0.6
Percent of gross international reserves	1.6	1.1	0.5	0.4	0.9	1.0	1.4	1.9	3.1	3.7	3.4	3.0	2.5
Percent of quota	13.7	8.3	4.7	3.8	10.0	13.3	18.0	25.9	47.2	59.3	59.2	56.1	51.1
Outstanding Fund credit													
Millions of SDRs	107.9	98.2	212.6	308.7	447.8	433.6	414.3	385.2	329.7	258.9	187.7	119.9	57.8
Millions of U.S. dollars	170.5	151.4	324.5	487.4	691.0	669.3	639.4	594.2	508.1	398.4	288.9	184.6	89.0
Percent of exports of goods and services	6.8	7.6	14.2	15.5	20.4	17.5	14.8	12.2	9.2	6.4	4.2	2.5	1.1
Percent of debt service 2/	208.9	172.8	435.0	556.8	720.8	609.0	530.8	488.9	315.2	183.3	124.0	75.9	34.6
Percent of GDP	2.8	2.8	5.6	7.0	9.1	8.1	7.1	6.1	4.8	3.4	2.3	1.3	0.6
Percent of gross international reserves	10.2	10.2	18.9	24.8	30.9	27.7	25.7	22.5	17.6	13.1	8.7	5.1	2.3
Percent of quota	87.6	79.7	172.6	250.6	363.4	352.0	336.3	312.7	267.6	210.1	152.3	97.3	46.9
Net use of Fund credit (millions of SDRs)	6.9	-9.7	114.5	96.1	89.5	35.4	-19.3	-29.1	-55.6	-70.8	-71.2	-67.8	-62.1
Disbursements and purchases 3/	22.9	0.0	120.0	100.0	100.0	49.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	16.0	9.7	5.5	3.9	10.5	14.2	19.3	29.1	55.6	70.8	71.2	67.8	62.1
Memorandum items:													
Exports of goods and services (millions of U.S. dollars)	2,490	2,000	2,292	3,151	3,393	3,826	4,330	4,879	5,502	6,200	6,840	7,463	8,143
Debt service (millions of U.S. dollars) 2/	81.6	87.6	74.6	87.5	95.9	109.9	120.5	121.5	161.2	217.3	233.0	243.2	257.3
Nominal GDP (millions of U.S. dollars) 2/	6,055	5,438	5,813	7,003	7,589	8,216	8,969	9,776	10,640	11,671	12,687	13,791	14,992
Gross International Reserves (millions of U.S. dollars)	1,672	1,480	1,718	1,965	2,237	2,414	2,489	2,646	2,879	3,049	3,314	3,603	3,916
Average exchange rate: SDR per U.S. dollars	0.6	0.6	0.7	0.6	…	…	…	…	…	…	…	…	…
Quota (millions of SDRs)	123.2	123.2	123.2	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/ Includes disbursements of SDR 60.0 million (of which, SDR 15.0 million for budget support) in 2011 and prospective disbursements of SDR 44.8 million in 2012 under the ECF, and purchases of SDR 40.0 million in 2011 and SDR 104.8 million in 2012 under the EFF.

2/ Total debt service includes IMF repurchases and repayments.

3/ In 2009, does not include Moldova use of the SDR allocation of SDR 117.71 million.

Table 8: Moldova: Selected Localized Millennium Development Goals and Progress Indicators, 2000-15

	Actual data								Targets and status	
	2000	2003	2006	2007	2008	2009	2010	2011	2010	2015
Goal: Reduce extreme poverty and hunger										
▪ Population with consumption below $4.3 (PPP) a day (percent) 1/	…	…	34.5	29.8	30.4	29.5	26.8		29.0 (met)	23.0
▪ Proportion of people under the absolute poverty line 1/	67.8	29.0	30.2	25.8	26.4	26.3	21.9		25.0 (met)	20.0
▪ Proportion of people under the extreme poverty line 1/	52.2	15.0	4.5	2.8	3.2	2.1	1.4		4.0 (met)	3.5
Goal. Achieve universal access to general secondary education										
▪ Gross enrollment ratio in general secondary education (percent)	93.8	95.1	92.0	91.6	90.9	90.7	90.3	90.1	95.0 (missed)	98.0
▪ Literacy rate for the 15-24 year-old population 1/	…	…	99.6	99.6	99.6	99.6	99.5	99.5	99.5 (met)	99.5
▪ Enrollment rate for pre-school programs for 3-6 year-old children	44.1	61.1	70.1	72.6	74.4	75.5	77.1	79.6	75.0 (met)	78.0
▪ Enrollment rate for pre-school programs for 6-7 year-old children	91.1	92.2	90.3	91.0	91.1	93.8	93.1	93.0	95.0 (missed)	98.0
Goal: Reduce child mortality										
▪ Infant mortality rate (per 1,000 live births) 1/	18.3	14.4	11.8	11.3	12.2	12.1	11.7	10.9	16.3 (met)	13.2
▪ Under-five mortality rate (per 1,000) 1/	23.2	17.8	14.0	14.0	14.4	14.3	13.6	13.4	18.6 (met)	15.3
▪ Immunization, measles (percent of children under 2 years old)	89.1	95.7	96.9	94.7	94.4	90.3	91.1	91.3	96.0 (missed)	96.0
Goal: Improve maternal health protection										
▪ Maternal mortality ratio (per 100,000 births) 2/	27.1	21.9	16.0	15.8	38.4	17.2	44.5		15.5 (missed)	13.3
▪ Births attended by skilled health personnel (percent)	99.3	99.4	99.6	99.5	99.5	99.7	99.2		99.0 (met)	99.0
Goal: Combat HIV/AIDS, tuberculosis and other diseases										
▪ HIV/AIDS incidence (per 100,000 people) 3/	4.0	6.2	14.7	17.4	19.4	17.1	17.1	17.6	9.6 (missed)	8.0
▪ HIV incidence among 15-24 year-olds (per 100,000 people) 3/	10.4	9.8	18.8	21.2	16.1	19.6	21.0	18.4	11.2 (missed)	11.0
▪ Mortality rate associated with tuberculosis (deaths per 100,000 people) 2/	17.2	16.9	19.3	20.2	17.1	18.0	17.8		15.0 (missed)	10.0
Goal: Ensure environmental sustainability										
▪ Proportion of land areas covered by forest (percent)	10.5	10.5	10.7	10.7	10.9	10.9	10.9		12.1 (missed)	13.2
▪ Ratio of area protected to maintain biological diversity (percent)	…	2.0	4.7	4.8	4.8	4.8	4.8	4.8	4.7 (met)	4.7
▪ Share of population with access to improved water sources (percent)	37.8	39.7	46.0	47.0	53.0	55.0	56.5	59.4	59.0 (missed)	65.0
▪ The share of population with access to sewage	32.3	32.9	43.3	43.9	45.7	47.9	50.7	53.2	50.3 (met)	65.0

Source: Moldovan authorities.

1/ The methodology was changed from 2006.
2/ The pandemic flu that resulted in 5 deaths led to a sharp deterioration of the maternal mortality ratio in 2010.
3/ Including data from Transnistria.

DEBT SUSTAINABILITY ANALYSIS (DSA)—UPDATE

The DSA update indicates that Moldova's risk of debt distress remains low and overall public sector debt dynamics are sustainable.[1] That said, vulnerabilities have risen since the previous assessment.

1. **The worsening external environment led to a downward shift in key macroeconomic projections in the near term compared to the previous assessment.[2]** The slowdown in global growth, in particular, in the European Union, is expected to affect Moldova's economy via trade, remittances, and private capital flow channels, reducing projected GDP growth. However, the relatively resilient domestic consumption is likely to result in more gradual adjustment in the current account deficit over the medium term than previously expected.

Table. Moldova: Evolution of selected macroeconomic indicators

	2010	2011	2012	2013	2014	2015
Real GDP growth (%)						
Previous DSA 1/	6.9	5.0	5.0	5.0	4.5	4.5
Current DSA	7.1	6.4	3.0	5.0	5.0	5.5
Nominal GDP (US$ million)						
Previous DSA 1/	5,810	6,999	7,680	8,433	9,217	10,072
Current DSA	5,813	7,003	7,589	8,216	8,969	9,776
Primary fiscal deficit (% of GDP)						
Previous DSA 1/	1.7	1.1	0.0	-0.1	-0.1	-0.1
Current DSA	1.7	1.6	0.1	0.1	0.0	0.0
Non-interest current account deficit (% of GDP)						
Previous DSA 1/	7.4	7.7	8.4	8.0	6.7	6.0
Current DSA	7.0	10.7	9.8	9.1	8.1	7.7

1/ Please see IMF Country Report No. 11/200.

2. **The debt dynamics are largely in line with previous projections.** The public and publicly guaranteed (PPG) debt stood at 27.8 percent of GDP as of end-2011 compared to 29.4 percent at end-2010. The decline in the PPG debt-to-GDP ratio came on the back of brisk GDP growth, relatively stable exchange rate, and restrained borrowing by the central government. Most of the PPG debt was external and to multilateral creditors. The domestic PPG debt came at 6.8 percent of GDP at end-2011, declining from 7.4 percent a year ago, as the budget deficit was financed primarily

[1] The DSA update is conducted jointly by World Bank and Fund staffs in line with the Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (January 2010).

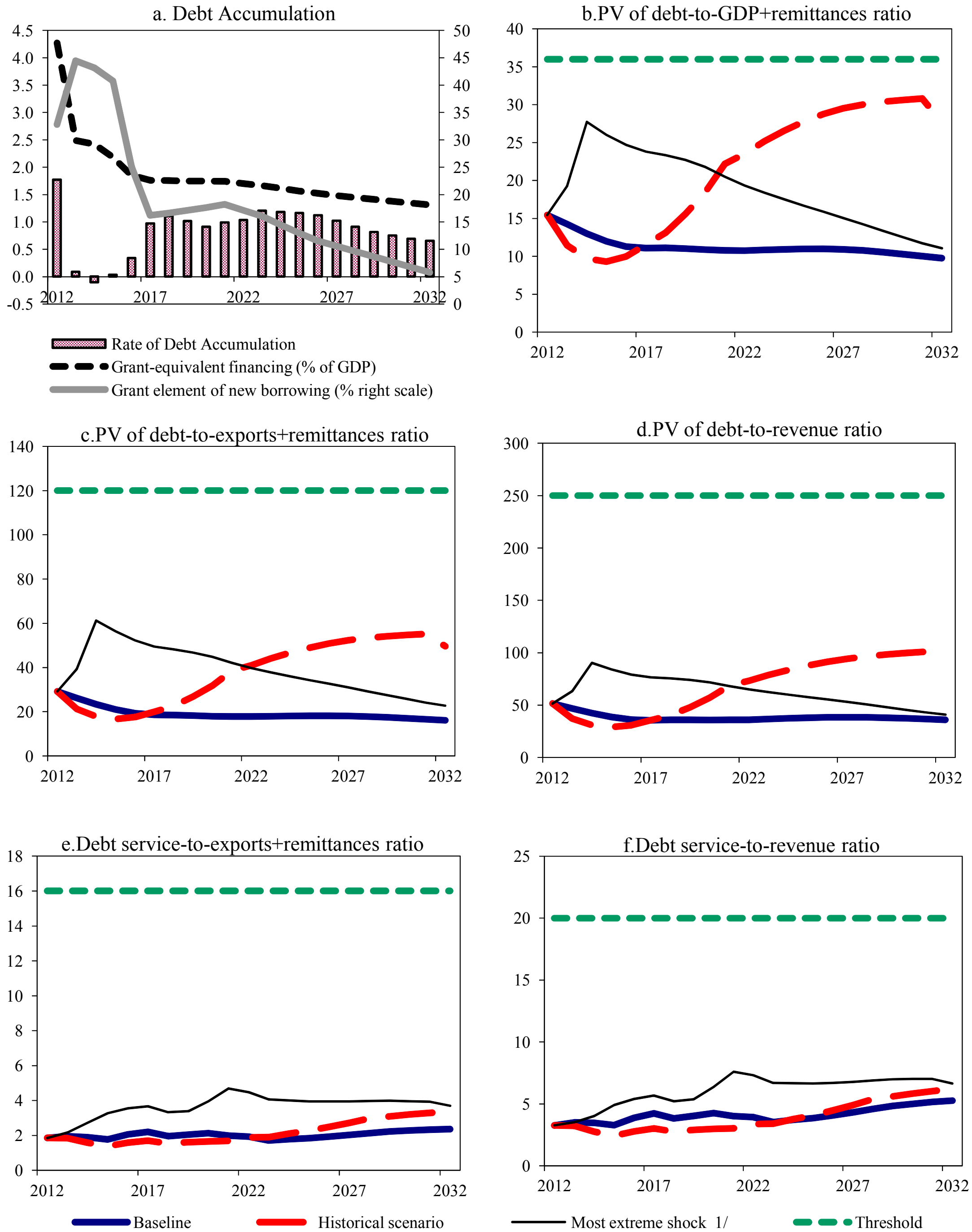
[2] The previous DSA was conducted in July, 2011 (IMF Country Report No. 11/200).

from external sources. Over the medium- to long-term, the projections for government borrowing are broadly unchanged.

3. **While the DSA framework indicates a low risk of public external debt distress, other indicators suggest that vulnerabilities have risen lately**. All external debt indicators remain well below the thresholds under the standard bound tests and alternative scenarios. The public DSA suggests that the overall public sector debt dynamics are sustainable unless there is a substantial and prolonged adverse growth shock. Nevertheless, the authorities—both central and local governments—should continue to be prudent with their borrowing strategy, given Moldova's limited debt-servicing capacity. In addition, a shift in the large private sector external debt (45 percent of GDP) to shorter maturities, continuing rise in the already large stock of gas payment arrears by the breakaway region of Transnistria,[3] and substantial fiscal risks related to possible claims on the budget for compensation for judicial errors/inaction pose risks to the debt position.

[3] For an analysis of the impact of Transnistria's debt on Moldova's debt vulnerabilities, see IMF Country Report No. 11/200.

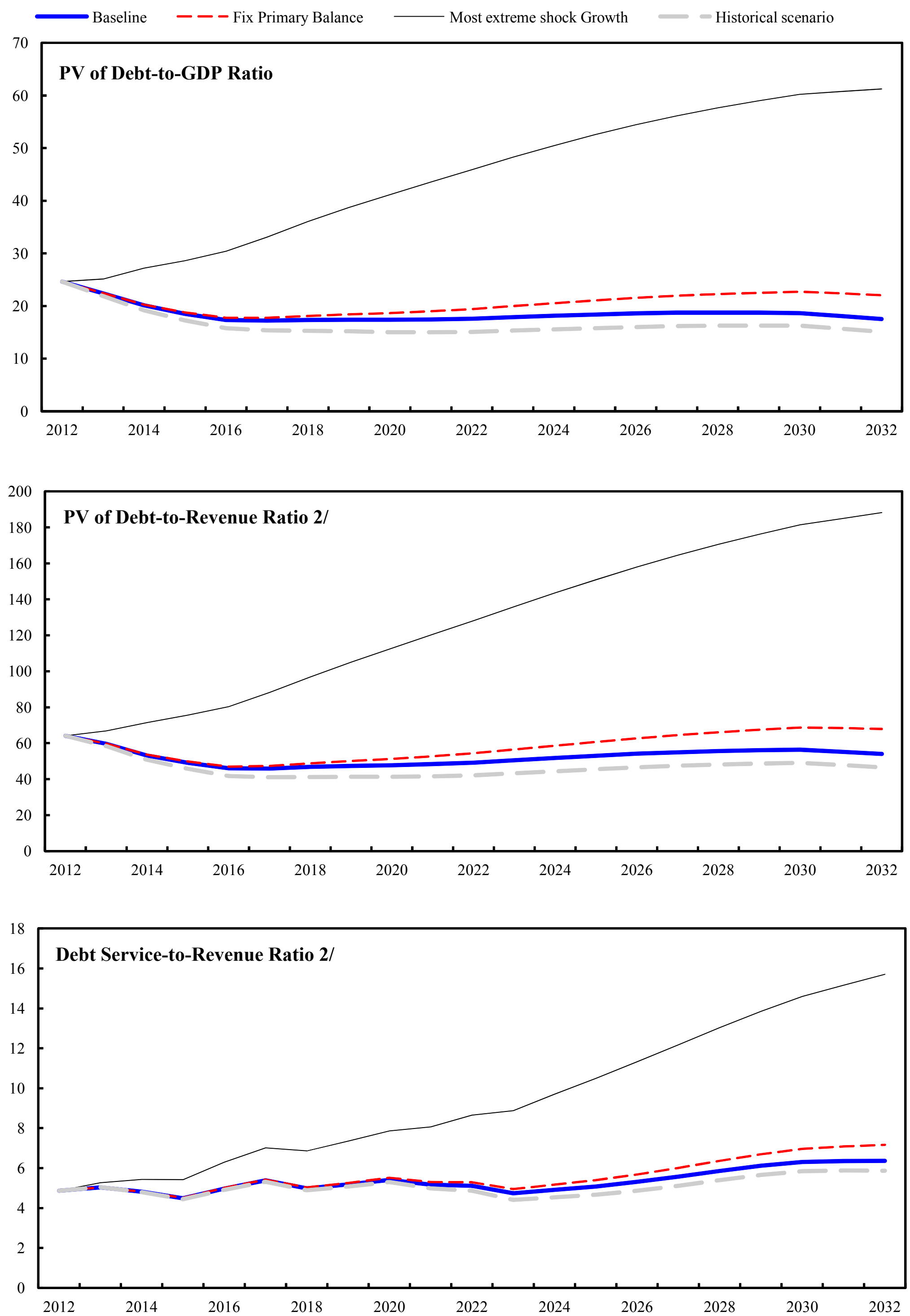
Figure 1. Moldova: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Exports shock

Figure 2.Moldova: Indicators of Public Debt Under Alternative Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022.

2/ Revenues are defined inclusive of grants.

Table 1a.Moldova: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-2032
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	31.2	29.4	27.8			28.3	25.9	23.3	21.6	20.3	20.0		20.7	20.1	
o/w foreign-currency denominated	22.7	22.1	21.0			21.8	20.1	18.4	17.0	16.0	15.6		15.5	13.8	
Change in public sector debt	10.0	-1.7	-1.7			0.6	-2.5	-2.5	-1.7	-1.3	-0.2		0.2	-0.6	
Identified debt-creating flows	9.9	-3.2	-2.4			-1.5	-2.0	-1.6	-1.4	-1.2	-1.2		-1.2	-1.2	
Primary deficit	4.9	1.7	1.6	-0.5	2.8	0.1	0.1	0.0	0.0	0.0	0.0	0.0	-0.2	-0.3	-0.2
Revenue and grants	38.9	38.3	36.7			38.4	37.5	37.8	37.7	37.7	37.4		35.7	32.4	
of which: grants	2.1	2.8	2.1			3.2	2.0	2.0	1.7	1.5	1.4		1.3	1.2	
Primary (noninterest) expenditure	43.8	40.0	38.3			38.6	37.6	37.8	37.7	37.7	37.4		35.4	32.1	
Automatic debt dynamics	5.3	-4.4	-3.5			-1.2	-1.7	-1.5	-1.4	-1.2	-1.2		-0.9	-1.0	
Contribution from interest rate/growth differential	2.5	-2.2	-1.9			-0.7	-1.2	-1.1	-1.1	-1.0	-0.9		-0.7	-0.8	
of which: contribution from average real interest rate	1.1	-0.2	-0.1			0.1	0.1	0.2	0.1	0.1	0.1		0.3	0.2	
of which: contribution from real GDP growth	1.3	-2.1	-1.8			-0.8	-1.3	-1.2	-1.2	-1.1	-1.0		-1.0	-1.0	
Contribution from real exchange rate depreciation	2.9	-2.2	-1.7			-0.6	-0.5	-0.5	-0.3	-0.3	-0.3		...	...	
Other identified debt-creating flows	-0.4	-0.5	-0.4			-0.4	-0.4	-0.1	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.4	-0.5	-0.4			-0.4	-0.4	-0.1	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.2	1.5	0.7			2.1	-0.4	-0.9	-0.4	-0.1	1.0		1.3	0.6	
Other Sustainability Indicators															
PV of public sector debt	...	...	24.5			24.6	22.4	20.1	18.5	17.3	17.2		17.6	17.5	
o/w foreign-currency denominated	...	...	17.7			18.1	16.7	15.2	13.9	13.1	12.8		12.4	11.3	
o/w external	...	...	17.7			18.1	16.7	15.2	13.9	13.1	12.8		12.4	11.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	10.2	9.8	9.5			7.9	7.7	6.9	6.0	5.8	5.6		5.7	4.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	66.7			64.1	59.7	53.2	49.1	46.0	46.0		49.3	54.1	
PV of public sector debt-to-revenue ratio (in percent)	…	…	70.7			70.0	63.0	56.1	51.5	47.8	47.7		51.2	56.2	
o/w external 3/	…	…	51.0			51.4	46.9	42.4	38.8	36.2	35.6		36.1	36.1	
Debt service-to-revenue and grants ratio (in percent) 4/	6.9	4.8	5.5			4.9	5.0	4.8	4.5	5.0	5.4		5.1	6.4	
Debt service-to-revenue ratio (in percent) 4/	7.3	5.2	5.8			5.3	5.3	5.1	4.7	5.2	5.6		5.3	6.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-5.1	3.4	3.2			-0.4	2.6	2.5	1.8	1.3	0.2		-0.4	0.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-6.0	7.1	6.4	4.7	4.6	3.0	5.0	5.0	5.5	5.3	5.3	4.9	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	2.2	1.5	1.2	2.3	0.9	1.2	1.1	1.3	1.3	1.4	1.7	1.3	2.8	3.3	2.8
Average real interest rate on domestic debt (in percent)	15.7	-3.4	1.5	1.3	7.3	2.3	3.1	3.5	3.6	3.7	4.4	3.4	3.3	0.8	2.7
Real exchange rate depreciation (in percent, + indicates depreciation)	17.2	-10.1	-8.2	-7.4	11.4	-2.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.2	11.1	7.4	9.6	4.1	6.5	5.0	5.0	5.0	5.0	5.0	5.3	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	32.8	44.5	43.2	40.8	25.1	16.2	33.8	17.1	5.8	...

Sources: Country authorities; and staff estimates and projections.

1/ The public debt represents central government direct and guaranteed debt and National Bank of Moldova's borrowing from the IMF on the gross basis.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2a.Moldova: Sensitivity Analysis for Key Indicators of Public Debt 2012-2032

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	25	22	20	19	17	17	18	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	22	19	17	16	15	15	15
A2. Primary balance is unchanged from 2012	25	22	20	19	18	18	19	22
A3. Permanently lower GDP growth 1/	25	23	21	21	21	23	36	76
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	25	25	27	29	30	33	46	61
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	25	25	24	23	21	21	20	19
B3. Combination of B1-B2 using one half standard deviation shocks	25	24	23	23	23	24	31	39
B4. One-time 30 percent real depreciation in 2013	25	30	27	25	23	23	22	22
B5. 10 percent of GDP increase in other debt-creating flows in 2013	25	32	29	27	26	25	24	21
PV of Debt-to-Revenue Ratio 2/								
Baseline	64	60	53	49	46	46	49	54
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	64	58	51	46	42	41	42	47
A2. Primary balance is unchanged from 2012	64	60	54	50	47	47	54	68
A3. Permanently lower GDP growth 1/	64	61	57	56	56	61	100	233
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	64	67	72	76	80	88	128	188
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	64	65	64	60	56	56	57	60
B3. Combination of B1-B2 using one half standard deviation shocks	64	63	60	60	61	65	88	121
B4. One-time 30 percent real depreciation in 2013	64	79	71	66	61	60	61	68
B5. 10 percent of GDP increase in other debt-creating flows in 2013	64	85	77	72	68	67	67	66
Debt Service-to-Revenue Ratio 2/								
Baseline	5	5	5	4	5	5	5	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	5	5	4	5	5	5	6
A2. Primary balance is unchanged from 2012	5	5	5	5	5	5	5	7
A3. Permanently lower GDP growth 1/	5	5	5	5	5	6	7	17
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	5	5	5	5	6	7	9	16
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	5	5	5	5	5	6	6	7
B3. Combination of B1-B2 using one half standard deviation shocks	5	5	5	5	6	6	7	11
B4. One-time 30 percent real depreciation in 2013	5	6	6	6	7	7	7	10
B5. 10 percent of GDP increase in other debt-creating flows in 2013	5	5	6	6	6	6	7	8

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 3a.: External Debt Sustainability Framework, Baseline Scenario, 2009-2032 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**67.8**	**66.6**	**64.6**			**69.9**	**71.9**	**71.5**	**71.6**	**72.0**	**71.1**		**75.9**	**53.0**	
o/w public and publicly guaranteed (PPG)	22.7	22.1	21.0			21.8	20.1	18.4	17.0	16.0	15.6		15.5	13.8	
Change in external debt	12.6	-1.1	-2.0			5.3	2.0	-0.4	0.1	0.4	-0.8		-2.5	-6.0	
Identified net debt-creating flows	12.1	0.2	-3.8			5.5	3.0	1.3	0.1	-0.6	-1.2		-2.7	-2.5	
Non-interest current account deficit	**7.2**	**7.0**	**10.7**	**8.2**	**5.0**	**9.8**	**9.1**	**8.1**	**7.7**	**7.4**	**7.0**		**5.1**	**5.2**	5.3
Deficit in balance of goods and services	36.6	39.4	41.3			40.9	40.8	39.1	38.5	37.9	37.6		34.1	33.8	
Exports	36.8	39.4	45.0			44.7	46.6	48.3	49.9	51.7	53.1		54.3	54.3	
Imports	73.4	78.8	86.3			85.6	87.4	87.4	88.4	89.6	90.7		88.5	88.1	
Net current transfers (negative = inflow)	-21.2	-21.0	-20.6	-20.9	4.3	-20.1	-19.7	-19.0	-18.5	-18.1	-17.8		-17.3	-17.3	-17.3
o/w official	-1.9	-2.4	-2.1			-2.7	-2.6	-2.3	-2.1	-1.8	-1.8		-1.8	-1.8	
Other current account flows (negative = net inflow)	-8.2	-11.4	-10.0			-11.1	-12.0	-12.0	-12.3	-12.4	-12.8		-11.7	-11.2	
Net FDI (negative = inflow)	**-2.7**	**-3.4**	**-3.9**	**-6.1**	**3.7**	**-4.1**	**-4.4**	**-5.5**	**-5.9**	**-6.3**	**-6.5**		**-6.0**	**-6.3**	-6.1
Endogenous debt dynamics 2/	**7.6**	**-3.4**	**-10.5**			**-0.2**	**-1.7**	**-1.3**	**-1.7**	**-1.7**	**-1.7**		**-1.8**	**-1.4**	
Contribution from nominal interest rate	1.3	1.0	0.8			1.6	1.5	2.0	1.9	1.8	1.7		1.8	1.3	
Contribution from real GDP growth	3.7	-4.5	-3.5			-1.8	-3.2	-3.3	-3.6	-3.5	-3.5		-3.6	-2.7	
Contribution from price and exchange rate changes	2.6	0.1	-7.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**0.4**	**-1.3**	**1.8**			**-0.1**	**-1.1**	**-1.7**	**-0.1**	**0.9**	**0.3**		**0.2**	**-3.5**	
o/w exceptional financing	-2.3	-2.4	-3.0			-3.5	-2.0	-1.5	-1.2	-0.9	-0.9		-0.3	-0.1	
PV of external debt 4/	...	...	61.3			66.3	68.5	68.3	68.6	69.0	68.3		72.8	50.5	
In percent of exports	...	...	136.2			148.2	147.1	141.5	137.4	133.5	128.6		134.0	92.9	
PV of PPG external debt	**...**	**...**	**17.7**			**18.1**	**16.7**	**15.2**	**13.9**	**13.1**	**12.8**		**12.4**	**11.3**	
In percent of exports	**...**	**...**	**39.2**			**40.5**	**35.8**	**31.4**	**27.9**	**25.4**	**24.2**		**22.8**	**20.7**	
In percent of government revenues	**...**	**...**	**51.0**			**51.4**	**46.9**	**42.4**	**38.8**	**36.2**	**35.6**		**36.1**	**36.1**	
Debt service-to-exports ratio (in percent)	**19.9**	**18.6**	**14.9**			**16.0**	**13.0**	**14.9**	**15.3**	**14.5**	**15.3**		**14.1**	**10.4**	
PPG debt service-to-exports ratio (in percent)	**4.4**	**3.3**	**2.8**			**2.6**	**2.7**	**2.6**	**2.4**	**2.7**	**2.9**		**2.5**	**3.0**	
PPG debt service-to-revenue ratio (in percent)	**4.4**	**3.7**	**3.6**			**3.3**	**3.5**	**3.5**	**3.3**	**3.9**	**4.2**		**3.9**	**5.3**	
Total gross financing need (Millions of U.S. dollars)	2000.5	2014.7	2487.1			2829.2	3164.8	3588.5	3918.6	4230.5	4716.8		8443.4	14166.4	
Non-interest current account deficit that stabilizes debt ratio	-5.3	8.1	12.7			4.4	7.1	8.5	7.6	7.1	7.9		7.6	11.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-6.0	7.1	6.4	4.7	4.6	3.0	5.0	5.0	5.5	5.3	5.3	4.9	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	-4.5	-0.2	13.2	12.5	11.8	5.2	3.1	4.0	3.3	3.4	4.2	3.9	3.5	3.5	3.5
Effective interest rate (percent) 5/	2.1	1.5	1.4	2.1	0.6	2.7	2.4	3.0	3.0	2.7	2.7	2.7	2.4	2.4	2.5
Growth of exports of G&S (US dollar terms, in percent)	-19.7	14.6	37.5	16.1	18.3	7.7	12.8	13.2	12.7	12.8	12.7	12.0	8.7	8.7	8.9
Growth of imports of G&S (US dollar terms, in percent)	-30.1	14.8	31.9	19.2	21.6	7.5	10.5	9.1	10.2	10.3	11.1	9.8	8.2	8.7	8.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.8	44.5	43.2	40.8	25.1	16.2	33.8	17.1	5.8	12.7
Government revenues (excluding grants, in percent of GDP)	36.8	35.5	34.6			35.2	35.6	35.8	36.0	36.3	36.0		34.4	31.2	33.4
Aid flows (in Millions of US dollars) 7/	137.3	225.6	200.3			299.9	216.4	222.8	208.7	189.4	197.8		274.1	530.3	
o/w Grants	115.9	161.7	145.2			245.6	160.5	180.9	169.5	154.4	161.8		234.1	490.3	
o/w Concessional loans	21.4	63.9	55.1			54.3	55.9	41.9	39.2	35.0	36.0		40.0	40.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.3	2.5	2.4	2.2	1.9	1.8		1.7	1.3	1.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			66.8	78.9	81.9	77.0	60.7	47.6		48.0	41.9	45.5
Memorandum items:															
Nominal GDP (Millions of US dollars)	5437.7	5813.4	7002.8			7588.6	8216.4	8968.9	9776.4	10639.8	11670.6		17716.1	40824.8	
Nominal dollar GDP growth	-10.2	6.9	20.5			8.4	8.3	9.2	9.0	8.8	9.7	8.9	8.7	8.7	8.7
PV of PPG external debt (in Millions of US dollars)			1236.7			1360.8	1367.3	1358.9	1361.6	1394.5	1497.8		2197.7	4594.5	
(PVt-PVt-1)/GDPt-1 (in percent)						1.8	0.1	-0.1	0.0	0.3	1.0	0.5	1.0	0.7	1.0
Gross workers' remittances (Millions of US dollars)	1048.2	1085.3	1293.9			1315.7	1404.1	1491.7	1602.8	1725.4	1865.0		2742.2	6319.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.9			15.4	14.2	13.0	12.0	11.3	11.1		10.7	9.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	27.8			29.2	26.2	23.4	21.0	19.3	18.6		17.8	16.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.0			1.9	2.0	1.9	1.8	2.1	2.2		1.9	2.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b.Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to-GDP+remittances ratio								
Baseline	15	14	13	12	11	11	**11**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	15	11	10	9	10	12	**24**	28
A2. New public sector loans on less favorable terms in 2012-2032 2	15	15	14	13	12	12	**14**	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	15	15	14	13	12	12	**12**	11
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	15	19	28	26	25	24	**19**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	15	15	14	13	12	12	**11**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	15	19	22	20	19	18	**16**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	15	17	21	19	18	18	**15**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	15	19	17	16	15	15	**14**	13
PV of debt-to-exports+remittances ratio								
Baseline	29	26	23	21	19	19	**18**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	29	21	18	17	18	20	**41**	50
A2. New public sector loans on less favorable terms in 2012-2032 2	29	27	24	22	21	21	**24**	27
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	29	26	23	21	19	19	**18**	16
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	29	39	61	56	52	50	**40**	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	29	26	23	21	19	19	**18**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	29	35	40	35	33	31	**26**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	29	33	41	37	34	33	**28**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	29	26	23	21	19	19	**18**	16
PV of debt-to-revenue ratio								
Baseline	51	47	42	39	36	36	**36**	36
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	51	37	31	29	31	35	**73**	91
A2. New public sector loans on less favorable terms in 2012-2032 2	51	48	44	41	39	40	**49**	61
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	51	49	47	43	40	39	**40**	40
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	51	63	90	84	79	77	**65**	41
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	51	48	45	41	38	38	**38**	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	51	61	70	65	61	59	**53**	39
B5. Combination of B1-B4 using one-half standard deviation shocks	51	55	67	62	59	57	**51**	38
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	51	66	60	55	51	50	**51**	51

Table 3b.Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032 (continued)
(In percent)

Debt service-to-exports+remittances ratio

Baseline	2	2	2	2	2	2	**2**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	2	2	2	1	2	2	**2**	3
A2. New public sector loans on less favorable terms in 2012-2032 2	2	2	2	2	2	2	**1**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	2	2	2	2	2	2	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	2	2	3	3	4	4	**4**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	2	2	2	2	2	2	**2**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	2	2	2	2	3	3	**3**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	3	3	**3**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	2	2	2	2	2	2	**2**	2

Debt service-to-revenue ratio

Baseline	3	4	3	3	4	4	**4**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	3	3	3	2	3	3	**3**	6
A2. New public sector loans on less favorable terms in 2012-2032 2	3	4	3	3	4	4	**3**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	3	4	4	4	4	5	**4**	6
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	3	4	4	5	5	6	**7**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	3	4	4	3	4	4	**4**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	3	4	4	4	5	5	**6**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	4	4	5	5	**6**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	3	5	5	5	5	6	**6**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	4	4	4	4	4	4	**4**	4

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

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.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

September 17, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT AND UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUESTS FOR WAIVERS FOR NON-OBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By: The European Department (in consultation with other departments and the World Bank)

CONTENTS

ANNEX I: MOLDOVA: FUND RELATIONS

(As of July 31, 2012)

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	236.24	191.75
Reserve tranche position	0.01	0.00

III. **SDR Department**:	**SDR million**	**Percent of Allocation**
Net cumulative allocation	117.71	100.00
Holdings	1.20	1.02

IV. **Outstanding Purchases and Loans**:	**SDR million**	**Percent of Quota**
ECF arrangements	239.48	194.38
Extended arrangements	113.04	91.75

V. **Latest Financial Arrangements**:

Type	**Approval date**	**Expiration date**	**Amount approved (SDR million)**	**Amount drawn (SDR million)**
ECF	1/29/2010	1/28/2013	184.80	156.96
EFF	1/29/2010	1/28/2013	184.80	113.04
ECF[1]	5/5/2006	5/4/2009	110.88	88.00

[1] Formerly PRGF.

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	4.34	14.17	19.27	29.10	52.54
Charges/Interest	0.69	1.34	1.87	1.77	1.56
Total	5.03	15.51	21.13	30.87	54.11

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 ECF/EFF arrangements approved on January 29, 2010. The assessment completed on June 3, 2010 updated the findings of the 2006 safeguards assessment. It concluded that recommendations of the 2006 safeguards assessment have been implemented. The updated safeguards assessment provided a set of recommendations focused on mitigating new risks and further strengthening the NBM safeguards framework.

VIII. **Exchange Arrangements**:

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 is classified as "floating". The NBM intervenes in the domestic foreign exchange interbank market in order to smooth out sharp exchange rate fluctuations of the Moldovan leu against the dollar. At the same time, the NBM interventions are not aimed at changing the trend of the exchange rate determined by the market. The NBM publishes the information on its interventions.

The official exchange rate of the Moldovan leu to the U.S. dollar announced by the NBM is determined as the weighted average of daily noncash market transactions performed on the interbank and intrabank market. 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 between the U.S. dollar and these currencies.

IX. **Article IV Consultations**:

The previous Article IV consultation was concluded on July 16, 2010 (Country Report No. 10/234). Timing of the next Article IV consultation will be set in accordance with the decision on consultation cycles approved on July 15, 2002.

X. **FSAP Participation**:

Moldova received an FSAP mission in May 2004; the FSSA (Country Report No. 05/64) 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 (Country Report No. 08/274) was presented to the Board with the 2007 Article IV Consultation report.

XI. **Resident Representative**:

Mr. Tokhir Mirzoev assumed his duties as Resident Representative in December 2009.

XII. Technical Assistance Provided by the Fund, 2009–12:

Department	Subject/Identified Need	Timing
MCM	Resident advisor on capacity building, macro modeling and monetary policy analysis in the NBM	August 2008–August 2010
FAD	Cash management, capital budgeting	February 2009
FAD	Support IT and business process reform	February, March 2009
FAD	Support tax administration reform, including in IT	February, December 2010
FAD	Developing a corporate strategy for tax administration	July 2010
MCM	Crisis preparedness	March, August 2010, April 2011, May 2012
LEG	Resolution and restructuring of banks' debts	April-May, September, December 2010
FAD	Completing the corporate strategy for tax administration	November 2010
STA	National accounts statistics	December 2010
FAD	PFM reforms	January 2011
FAD	Tax compliance strategy	February 2011
FAD	Expenditure rationalization	February 2011
MCM	Forecasting and policy analysis (a series of short-term missions by a TA advisor)	March 2011–April 2012
FAD	Tax policy	April 2011
FAD	VAT collection issues	June 2011
FAD	Improving the Large Taxpayer Office	September 2011, January, April–May, 2012
LEG	Risk based approach to banking supervision and AML/CFT	September 2011
STA	Improvement of the consumer price index	November 2011
LEG	Banking law	December 2011
FAD	Analysis of VAT performance issues	December 2011
FAD	Medium-Term Budget Framework (MTBF)	January 2012
FAD	Taxation of high-wealth and high income individuals. Large taxpayer compliance management	January, February, April–May, 2012
STA	Improvement of Fiscal Data in Line with GFSM 2001	March 2012
STA	Resident advisor on capacity building, national accounts, price and external trade statistics in the NBS	From April 2012
MCM	Analysis of the financial situation of a state-controlled bank	June 2012

ANNEX II: MOLDOVA: RELATIONS WITH THE WORLD BANK GROUP

(As of June 18, 2012)

A. The World Bank Group Strategy

1. The Moldova Country Partnership Strategy (CPS) for FY09–12 (extended to FY13) was prepared during a time of political and economic uncertainty. The CPS aims at assisting the country in improving competitiveness and laying the foundations for inclusive economic growth. The Bank worked closely with the Government and other development partners in support of two pillars of the National Development Strategy (NDS) 2008–11: (i) enhancing economic competitiveness; and (ii) developing human resources, enhancing employment, and promoting social inclusion. To effectively support these two pillars, the Bank's strategy included a third pillar and crosscutting priority: (iii) improving governance and addressing corruption, including improved public sector efficiency and effectiveness. The choice of pillars has been guided by the Government's own development strategy, client perspectives, the lessons learned from the previous CAS, and the Bank understanding of Moldova's development challenges. These priorities also remain relevant in the context of the recently developed National Development Strategy—Moldova 2020. The CPS envisaged annual commitments of approximately US$45–50 million (depending on IDA's performance-based allocation system), and the IDA-15 lending envelope of US$161 million, including an additional US$ 20 million received in FY11, which has been fully committed for existing projects.

2. The Bank Group's program of support for Moldova capitalizes on those areas where the Bank has a comparative advantage for optimal impact and it tries to be strategic in its engagement, not only in terms of where to direct IDA resources but also in terms of how to best leverage its own internal partnerships. The International Finance Corporation (IFC) complements IDA's efforts in private sector development by focusing in particular on the financial sector, SMEs, agribusiness, healthcare and infrastructure modernization. The Multilateral Investment Guarantee Agency (MIGA) currently has two active projects in Moldova.

B. IMF-World Bank Collaboration in Specific Areas

3. IDA's partnership with the IMF in Moldova's development strategy has been strong over the past few years. The Bank, together with the IMF and other development partners, prepared Policy Notes on key economic and social challenges to address the impact of the crisis. The Notes were instrumental in the preparation of the Economic Stabilization and Recovery Program for 2009–11. Bank and IMF staff have executed joint work and have continued to carry out joint missions at least twice a year for macroeconomic policy dialogue with the Government. The IMF is taking the lead on macroeconomic issues, while IDA takes the lead on structural and social issues. In a number of areas where the mandates of the two institutions overlap, such as public finance, the work is being closely coordinated to ensure that consistent advice is provided to the authorities. The existence of an IMF program has been an important input for the determination of the adequacy of the macroeconomic policy framework.

Areas in which the World Bank leads

4. The Bank's dialogue by the end of this CPS has stressed the importance of improving the competitiveness and thereby increase the volume of Moldovan exports, especially in EU markets. Our budget support operation seeks to reduce administrative burden of business regulation; reduce non-tariff barriers to trade; gradual harmonization of product standards with the EU standards; improved legal framework for insolvency, reduce overlap inspections; fewer anti-competitive practices; increased competitiveness of Moldovan agro-food export products; more competition in telecommunications sector; reduced cost of and increased access to credit for credit worthy SMEs; greater use of remittances in financial intermediation and development of capital markets. In addition to budgetary support, the World Bank scaled up financing to a series of existing and successful operations in order to mitigate the impact of the economic downturn and help a speedier recovery.

5. In the **social and health** areas, the Moldova Social Investment Fund 2 (MSIF2) was scaled up to prepare a public works program, which provided job opportunities to the unemployed, while also building desperately needed community infrastructure. Also, during the economic crisis, the Global Food Crisis Response helped to protect and improve the health and nutritional status of vulnerable populations. This was achieved through interventions to decrease the nutritional vulnerability of pregnant women, lactating mothers and young children, and provision of temporary cash transfers

to social institutions for the elderly, children and people with mental and physical disabilities. Additional financing was provided to the Health Services and Social Assistance Project to improve the efficiency and viability of the primary health sector. The Strengthening Social Safety Net results-based operation will seek to improve the efficiency and equity of social assistance through a fiscally sustainable expansion and strengthening of the targeted *Ajutor Social Program*.

6. In **education,** the ongoing *Quality Education in Rural Areas Project* (ending in FY13) 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. A new Education Reform Project, currently under preparation, will provide much-needed support to important reform efforts intended to increase the efficiency of the general education sector, while simultaneously improving the quality and relevance of education to meet the demands of the modern economy. The Bank's support will also address the potential risks of such reforms, including of increased drop outs and marginalization of minority groups or the poorest, through a monitoring and evaluation scheme that tracks students to gauge the impact of reforms.

7. In the area of **competitiveness**, additional financing was added to the *Competitiveness Enhancement Project (CEP)* to facilitate the growth of an export-oriented real sector with: (i) a line of credit through qualified commercial banks to support investment and working capital needs of exporting enterprises; and (ii) expanded matching grant scheme to assist enterprises with upgrading their labor skills and management practices, and introducing new products.

8. In the area of **rural and agricultural development**, the *Rural Investment and Services Project 2 (RISP2)* was scaled up primarily to add financing to the existing and well-performing line of credit to rural entrepreneurs for farm and off-farm activities. Access to credit is an important constraint to economic activity in Moldova and the situation has worsened due to the global crisis. The RISP2 line of credit helped mitigate the impact of the crisis. The recently approved *Agricultural Competitiveness Project* is set to enhance the competitiveness of the agro-food sector by supporting the modernization of the food safety management system, facilitating market access for farmers, and mainstreaming agro-environmental and sustainable land management practices.

9. In **public sector management**, the World Bank manages a multi-donor Trust Fund to support the Government's efforts to reform the Central Public Administration. The Bank also

supports the development of the Government's Public Financial Management System through a new information system, as well as technical assistance in support of internal controls and audit.

10. With regard to **infrastructure** development, the Bank is concentrating on upgrading basic utility services impacting the population at large and the poor in particular. The recently completed *Energy 2 Project* was scaled up to provide heating systems to public institutions, reduce losses in electricity transmission and distribution networks. The *National Water Supply and Sanitation Project* is aimed at: (i) 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 Bank-financed Governance E-Transformation Project is looking at opportunities to use ICT as a tool for improving governance and tackling corruption.

11. During this CPS period a number of interventions have helped address climate change vulnerabilities by reducing environmental degradation, specifically soil conservation, community forestry development, pollutant management, emissions reduction, and agricultural pollution-related activities. With the recently completed *Energy 2 Project* and follow-up *Energy Efficiency TA*, the Bank will help Moldova increase its energy efficiency. Water resources management and adaptation to increasing water shortages and an increasing risk of flooding is likely to be a key issue in the long run to mitigate climate risks. The *Disaster and Climate Risk Management Project* will help address this through improved hydro-meteorological services and preparedness.

Areas of shared responsibility

12. **Macroeconomic development.** The Bank's team cooperates closely with the IMF in the process of implementation of the 2011 Country Economic Memorandum (CEM). The Bank and the IMF jointly prepared a high level retreat in October 2009 to discuss current economic situation and the best options of crisis response with the whole cabinet of Ministers of the Republic of Moldova. These eventually led to new financing programs of both institutions concluded with the government and a very successful Consultative Group meeting of Development partners held on March 24, 2010 in Brussels. Development partners expressed their strong support for the Government's strategies elaborated based on the consultations with the IMF and the WB and indicated financial support

totaling US$2.6 billion over the next four years, of which 30 percent was in budgetary and balance of payments support. The dialogue between the IMF, WB and the key government officials on the drivers of economic growth and growth strategy of Moldova in general was continued during the last IMF mission on May 3–17, 2012.

13. **Public expenditure management.** The Bank is going to support the dialogue between the IMF and the Government on the 2012 budget. In this context, a policy note was prepared by the World Bank Staff that analyzes capital public expenditures and its management in more detail and provided some advice on how capital investment management can be improved.

14. **Debt management.** The Joint IMF/WB team provided to the Ministry of Finance of Moldova technical assistance on the Medium-Term Debt Strategy drafted in October 2009. The follow-up technical assistance mission of Bank and Fund teams with the aim of preparing a Debt Management Reform Plan visited Moldova in May–June 2011. Currently, authorities are implementing their reform plan based on the WB/IMF team advice.

Moldova: Bank and Fund Planned Activities in Macro-critical Structural Reform Areas
July 2012—June 2013

Title	Products	Provisional Timing of Missions	Expected Delivery Date
1. Bank Work Program	Development Policy Operation	Ongoing	2012
	Public Expenditure Review (PER) 2 (capital investment management)	Ongoing	2012
	Programmatic fiscal work (including BOOST studies)	Ongoing	2012–13
	Education Rationalization TA	Ongoing	2012
	Agricultural Competitiveness TA	Ongoing	2012
	Financial Sector Monitoring TA	Ongoing	2013
	Payment System Modernization	Ongoing	2013
	Improving Access to Credit	Ongoing	2013
	Transport and Logistics Strategy	Ongoing	2013
	Energy Efficiency TA	Planned	2013
	Public Financial Management / Tax Administration TA	Planned	2013
	Competitiveness and structural reform follow-up work	Planned	2013
2. Fund Work Program	Sixth review of the program under the ECF/EFF arrangements and discussions of the follow-up program arrangement	November 2012	End-2012
	Staff visit or first review of the new program arrangement	April-May 2013	Mid-2013
	Advisor to the NBM to further strengthen capacity for monetary policy and forecasting	Peripatetic	Regular reports
	Advisor to the NBS to enhance capacity for national accounts, price and external trade statistics	Permanent	Regular reports
	TA on tax administration and tax policy	TBD	TBD
	TA on migration to accrual-based accounting and introduction of GFSM 2001	TBD	TBD
	TA on PFM and expenditure rationalization, capital and performance-oriented budgeting	TBD	TBD
	TA on central bank supervision, risk management, and crisis preparedness	TBD	TBD
	TA on improving bank resolution and debt restructuring laws, and raising transparency of banks' ownership	TBD	TBD

ANNEX III: MOLDOVA: STATISTICAL ISSUES

(As of August 23, 2012)

I. Assessment of Data Adequacy for Surveillance	
General: Economic and financial data provided to the Fund are generally adequate for surveillance and program monitoring. Over the last several years, with technical assistance from the Fund the authorities have improved statistics in several areas, including national accounts, fiscal and monetary data, consumer prices, external trade and balance of payments.	
National Accounts: National accounts statistics are prepared by the National Bureau of Statistics (NBS) 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 often remain unadjusted, thus limiting their consistency with the revised annual data.	
Price statistics: The NBS publishes monthly data on CPI and PPI and began publications of the core CPI from 2010. The weights of the CPI basket are subject to annual review and adjustment in line with the shifts in consumer basket.	
Government finance statistics: Government finance statistics are compiled on cash basis, in broad compliance with the recommendations of the *Government Finance Statistics Manual 1986* (*GFSM 1986*). With the support of Fund TA, the authorities are working on introducing accrual-based fiscal accounting and implementing the GFSM 2001 from 2013. Full implementation of the GFSM 2001 can take several years and requires significant strengthening of the detailed balance sheet breakdowns and underlying accounting systems.	
Monetary statistics: Monetary and financial statistics are broadly in line with international statistical standards and of a generally good quality. The NBM compiles and submits monetary data using Standardized Report Forms (SRFs). Monetary data are reported by the NBM on a regular basis and are being published in the IFS Supplement.	
External sector statistics: The compilation methodology follows the fifth edition of the Balance of Payments Manual. 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.	
II. Data Standards and Quality	
Moldova subscribed to the SDDS in May 2006. Participation in the GDDS began in February 2003.	A data ROSC report was published in March 2006.

MOLDOVA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of August 23, 2012)

	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	8/23/2012	8/23/2012	D/M	D	D/M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	8/17/2012	8/23/2012	W/M	W	M		
Reserve/Base Money	8/17/2012	8/23/2012	W	W	M	O, LO, O, O	LO, O, O, O, O
Broad Money	7/31/2012	8/21/2012	W	W	M		
Central Bank Balance Sheet	8/17/2012	8/23/2012	W	W	M		
Consolidated Balance Sheet of the Banking System	8/17/2012	8/23/2012	W	W	M		
Interest Rates[2]	8/01/2012	8/21/2012	W	W	W		
Consumer Price Index	July 2012	8/09/2012	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	July 2012	8/20/2012	M	M	M	O, LO, LO, O	LO, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	July 2012	8/20/2012	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	3/31/2012	6/12/2012	M	M	M		
External Current Account Balance	Q1 2012	6/29/2012	Q	Q	Q	LO, LO, O, O	O, O, O, O, O
Exports and Imports of Goods and Services	June 2012	8/10/2012	M	M	M		
GDP/GNP	Q1 2012	6/15/2012	Q	Q	Q	O, LO, LO, O	LO, O, LO, O,
Gross External Debt	Q1 2012	6/29/2012	Q	Q	Q		
International Investment Position	Q1 2012	6/29/2012	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

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 12/116
FOR IMMEDIATE RELEASE
October 1, 2012

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2012 Article IV Consultation with the Republic of Moldova

On September 28, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Moldova and endorsed the staff appraisal without a meeting.[1]

Background

Moldova's economy grew by an impressive 14 percent cumulatively in 2010–11, spurred by booming exports and domestic demand, recovering external inflows, and improved policies. Since January 2010, the authorities' efforts to restore fiscal, external, and financial sustainability and promote growth were supported by two arrangements with the IMF: the Extended Credit Facility and the Extended Fund Facility, amounting in total to SDR 369.6 million (US$562.5 million at present). Five reviews have been completed so far, releasing SDR 320 million to support the balance of payments.

Economic activity slowed markedly in early 2012 due to weakening external conditions and harsh weather conditions, driving real GDP growth down to 0.8 percent in H1 2012 relative to a year ago. The slowdown was reflected in dwindling exports to the EU and domestic demand in line with weakening remittances. The economy is expected to pick up in the second half of the year, supported by resilient conditions in the CIS and investment in

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

infrastructure. However, a severe drought that has hit Moldova over the summer and a deterioration of conditions in the EU could dampen this outlook. Twelve-month inflation decelerated to 4.4 percent in August, and is expected to remain anchored around the National Bank of Moldova (NBM) target of 5 percent during the remainder of 2012 and 2013.

Fiscal consolidation in 2010–11 has been strong, bringing the fiscal deficit down to 2.4 percent of GDP at end-2011. However, revenue shortfalls, due partly to the slowing economy and partly to increased losses from tax loopholes and collection problems, and new spending commitments have slowed down fiscal adjustment. The authorities have implemented corrective measures to safeguard the program's fiscal consolidation objective in the context of the fifth program reviews.

Monetary policy was eased aggressively in late 2011 and early 2012 in response to the rapidly falling inflation, supporting credit growth and thus cushioning the slowing economic activity.

The banking sector is sound overall. Banks have remained generally liquid, well-capitalized, and profitable, although their nonperforming loans (NPLs) have risen somewhat as the economy slowed. The euro area debt crisis has had little direct effect on the financial system owing to limited links with banks in affected countries. However, risky lending practices and poor governance have significantly weakened the asset portfolio of the state-controlled Banca de Economii and necessitated a large increase in provisions. The bank, which accounts for about 13 percent of total assets in the banking sector, requires urgent measures to repair its balance sheet.

Executive Board Assessment

In concluding the 2012 Article IV consultation with the Republic of Moldova, Executive Directors endorsed staff's appraisal, as follows:

Moldova enjoyed vigorous economic growth in 2010–11, supported by appropriate macroeconomic policies and structural reforms. Implementation of the ECF/EFF-supported program over that period has been strong.

The economy is slowing down in 2012 due to weakening external conditions, with serious downside risks. GDP is expected to grow by 3 percent in 2012, and inflation should settle close to the NBM target of 5 percent. Economic deterioration in the EU could significantly depress growth. However, with a lower structural fiscal deficit, improved monetary policy framework, and an overall sound banking sector, Moldova is in a much better position to withstand shocks than in 2009.

The amended 2012 budget puts fiscal consolidation back on track, while accommodating cyclical effects and supporting important reforms. Strong corrective measures have been taken to close tax loopholes and offset unbudgeted expenditure commitments that emerged in early 2012. Continued improvements in tax and customs administration, and reforms in the key areas of the pension system, education, and public administration will be needed to maintain fiscal sustainability in the medium term as foreign assistance declines.

The current monetary stance is consistent with the NBM’s inflation target, while the conduct of monetary policy could be honed further. After the aggressive easing in early 2012, the financial system has all it currently needs to support credit demand at advantageous interest rates. Further policy changes could be warranted if the economic outlook deteriorates or demand-driven inflation pressures re-emerge. To avoid unnecessary policy volatility, more weight should be given to demand-driven core inflation trends relative to supply shocks in determining the policy stance and in communications with the public.

The external position of the economy gives rise to some concerns. The large current account deficit, rising short-term private debt, and external risks call for augmentation of the NBM’s international reserves. The real effective exchange rate is moderately overvalued relative to underlying fundamentals, although it is expected to self-correct gradually, in light of falling inflation, slowing capital inflows, and a higher pace of reserve accumulation.

Moldova’s financial system is stable overall, but the deteriorating situation at the majority state-owned Banca de Economii (BEM) must be promptly addressed. Banks have generally remained liquid, well-capitalized, and profitable. Swift legislation amendments to facilitate owner disclosure requirements and introduce fit and proper criteria for bank managers and board members would further strengthen confidence in the banking system. However, urgent progress is needed to repair BEM’s balance sheet and improve its risk management. The new management, the Board of Directors, and the NBM should ensure that BEM cleans up its portfolio, quickly disposes of foreclosed collateral, and ends its risky lending practices before seeking recapitalization.

The authorities’ efforts to improve the business climate and promote exports have been productive, but important challenges lie ahead. Wide-ranging structural reforms have enhanced competitiveness and fostered investment. However, further improvements in several key areas, including protection of property rights, a transparent and stable policy environment, effective governance, and a reliable judicial system, are essential to attract investors.

A decisive energy sector reform should finally commence. The authorities should persevere with establishing payment discipline among both households and public entities, and implement their energy sector restructuring strategy to reduce losses and resolve historic arrears.

Staff recommends completion of the fifth reviews and approval of the requests for a waiver of non-observance of the end-March 2012 performance criterion (PC) on the general government budget deficit and modifications of the end-September 2012 PCs on the general government budget deficit, the NBM's net domestic assets, and net international reserves. Program implementation has been generally good. The authorities maintain the commitment and the capacity to implement their Fund-supported program. The slippages in early 2012 have been adequately addressed, and the policies planned for the remainder of 2012 and beyond, including the requested new targets, support the program's objectives. The capacity to repay the Fund remains strong.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Moldova: Selected Indicators, 2010–15 1/

	2010	2011	2012	2013	2014	2015
			Projection			
I. Real sector indicators	(Percent change, unless otherwise indicated)					
Gross domestic product						
Real growth rate	7.1	6.4	3.0	5.0	5.0	5.5
Demand	9.2	7.5	3.9	6.0	5.9	6.3
Consumption	7.3	6.5	2.8	5.3	5.7	6.1
Private	9.6	8.5	2.7	5.6	6.1	6.3
Public	-1.1	-1.6	3.2	4.1	3.9	5.5
Gross capital formation	17.2	10.7	8.5	9.5	6.9	7.2
Private	18.5	8.8	6.0	8.0	8.0	8.0
Public	12.4	17.8	17.0	14.2	3.5	4.6
Nominal GDP (billions of Moldovan lei)	71.9	82.2	90.1	99.4	109.6	121.4
Consumer price index (average)	7.4	7.6	5.1	5.0	5.0	5.0
Consumer price index (end of period)	8.1	7.8	5.0	5.0	5.0	5.0
GDP deflator	11.1	7.4	6.5	5.0	5.0	5.0
Average monthly wage (Moldovan lei)	2,972	3,194	3,550	3,950	4,350	4,800
Unemployment rate (annual average, percent)	7.4	6.7	6.6	6.4	6.0	5.5
Saving-investment balance	(Percent of GDP)					
Foreign saving	9.8	12.6	12.2	11.7	10.9	10.4
National saving	12.9	10.6	11.5	12.7	13.5	14.2
Private	10.3	7.7	6.9	7.6	8.6	9.3
Public	2.5	2.9	4.6	5.0	4.9	4.9
Gross investment	22.6	23.2	23.6	24.4	24.4	24.5
II. Fiscal indicators (general government)						
Primary balance (cash)	-1.7	-1.6	-0.5	-0.4	-0.3	-0.4
Overall balance	-2.5	-2.4	-1.3	-1.1	-1.0	-0.9
Stock of public and publicly guaranteed debt	29.8	28.0	28.8	27.2	24.6	22.6
III. Financial indicators	(Percent change, unless otherwise indicated)					
Broad money (M3)	13.4	10.6	11.7	12.5	10.2	10.8
Velocity (GDP/end-period M3; ratio)	1.9	2.0	2.0	1.9	1.9	1.9
Reserve money 2/	15.9	11.1	12.2	12.7	...	...
Credit to the economy 3/	17.4	22.1	11.2	14.6	...	...
IV. External sector indicators						
Current account balance (percent of GDP)	-9.8	-12.6	-12.2	-11.7	-10.9	-10.4
Gross official reserves (months of imports)	3.4	3.6	3.7	3.7	3.5	3.3
Exchange rate (Moldovan lei per USD, period avge)	12.4	11.7	...	...	...	...
Real effective exch.rate (average, percent change)	-6.0	6.1	3.9	0.5	1.4	1.1
External debt (percent of GDP) 4/	67.0	64.6	69.7	72.9	72.5	72.6
Debt service (percent of exports of goods and services)	18.6	14.9	16.2	13.2	15.1	16.1

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.
2/ Adjusted for changes in reserve requirement ratios.
3/ Adjusted for exchange rate changes and write-offs.
4/ Includes private and public and publicly guaranteed debt.

Press Release No. 12/374
FOR IMMEDIATE RELEASE
October 2, 2012

International Monetary Fund
Washington, D.C. 20431 USA

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

The Executive Board of the International Monetary Fund (IMF) on September 28, 2012 completed the fifth reviews of Moldova's economic performance under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangements. The Board's decision was taken on a lapse of time basis.[1]

The blended financing arrangements under the ECF and the EFF for an amount equivalent to SDR 369.6 million (about US$569.4 million) were approved on January 29, 2010 (see Press Release No. 10/21). The completion of the fifth reviews makes an amount equivalent to SDR 50 million (about US$77.0 million) immediately available for the authorities.

In completing the reviews, the Executive Board approved the authorities' requests for a waiver of non-observance of the end-March 2012 PC on the general government budget deficit and modifications of the end-September 2012 PCs on the general government budget deficit, the National Bank of Moldova's (NBM) net domestic assets, and net international reserves.

Economic activity slowed markedly in early 2012 due to weakening external environment and harsh weather conditions, driving real GDP growth down to 0.8 percent in H1 2012 relative to a year ago. The slowdown was reflected in dwindling exports to the EU and domestic demand in line with weakening remittances. The economy is expected to pick up in the second half of the year, supported by resilient conditions in the CIS and investment in infrastructure. However, a severe drought that has hit Moldova over the summer and a deterioration of conditions in the EU could dampen this outlook. Twelve-month inflation decelerated to 4.4 percent in August, and is expected to remain anchored around the NBM target of 5 percent during the remainder of 2012 and 2013.

[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.

Fiscal consolidation in 2010–11 has been strong, bringing the fiscal deficit down to 2.4 percent of GDP at end-2011. However, revenue shortfalls, due partly to the slowing economy and partly to increased losses from tax loopholes and collection problems, and new spending commitments have slowed down fiscal adjustment. The authorities have implemented corrective measures to safeguard the program's fiscal consolidation objective in the context of the fifth program reviews.

Monetary policy was eased aggressively in late 2011 and early 2012 in response to the rapidly falling inflation, supporting credit growth and thus cushioning the slowing economic activity.

The banking sector is sound overall. Banks have remained generally liquid, well-capitalized, and profitable, although their nonperforming loans (NPLs) have risen somewhat as the economy slowed. The euro area debt crisis has had little direct effect on the financial system owing to limited links with banks in affected countries. However, risky lending practices and poor governance have significantly weakened the asset portfolio of the state-controlled Banca de Economii and necessitated a large increase in provisions. The bank, which accounts for about 13 percent of total assets in the banking sector, requires urgent measures to repair its balance sheet.