February 19, 2008

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

Dear Mr. Strauss-Kahn:

The attached Memorandum of Economic and Financial Policies(MEFP) for 2008 describes policies and measures we intend to implement this year and for which we request the support of the International Monetary Fund under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). These policies are consistent with our National Development Strategy (NDS) as well as with the action plan agreed between the European Union and the Republic of Moldova.

Now that the external shocks have receded, the government and the National Bank believe that all efforts should focus on the core goals of the program, which are to promote sustainable growth and reduce poverty. To this end, the policies set forth in the attached memorandum aim at ensuring macroeconomic stability and financial sector development, and improving the business environment, including through reduction of the footprint of the state in the economy. In addition, in consultation with the Fund, we will take additional measures that may become appropriate for reaching these objectives.

We implemented all end-September performance criteria under the program, as well as prior actions for this review, and hereby request completion of the third review under the PRGF arrangement.

We will communicate to the IMF the information needed to monitor progress in implementing the program, and will conduct discussions with the Fund for the fourth review under the PRGF arrangement before end-May 2008. We anticipate that the fourth review under the PRGF arrangement will be conducted based on end-March 2008 data and be completed before end-June 2008. The Fifth Review will be based on end-September 2008 data, to be completed by the year-end.

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

Sincerely yours,

/signed/
Vasile Tarlev
Prime Minister
Government of the Republic of Moldova

/signed/
Mihail Pop
Minister
Ministry of Finance

/signed/
Leonid Talmaci
Governor
National Bank of Moldova

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

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

February 19, 2008

A. Introduction

1. Building on the progress achieved over the past 2 years under the program supported by the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), this memorandum summarizes our strategic priorities for 2008 and sets forth policies and reform objectives.

2. Despite severe external shocks suffered by Moldova in 2006, macroeconomic developments this year have been favorable. The national economy grew by 8 percent in the first half of 2007, though it slowed thereafter due to a weak harvest caused by the summer drought. As a result, we expect GDP growth to reach 5 percent for the year, up from 4 percent in 2006. Export performance has been encouraging and the recovery is likely to accelerate further as wine exports to Russia resumed from the fourth quarter of 2007. While imports grew even faster, fuelled by rapidly increasing FDI and strong remittances, the current account deficit has still narrowed due to improvements in net income and transfers. Successful disinflation in the first six months of 2007 was set back by the drought. At 13.1 percent CPI inflation remains high for the region. Strong inflows of foreign exchange and the global weakening of the US dollar led to an appreciation of the leu, which strengthened by 12 against the dollar and by 2 percent against the Euro since the beginning of the year.

B. Performance under the Program

3. Except for a few instances, the government and NBM have implemented the measures under the updated Memorandum on Economic and Financial Policies (MEFP) of June 14, 2007. In particular, by September 30 the following actions have been completed:

a. On May 4, 2007 the parliament of Moldova approved the Law on Public Property Management and Divestiture. Furthermore, the government approved resolutions on (i) privatization of state-owned public land; (ii) measures to implement the Law on Public Property Management and Divestiture; and (iii) the structure and regulation of the Public Property Agency under the Ministry of Economy and Commerce;

b. On June 7, 2007, parliament approved Law #129-XVI, which effective July 6, 2007, established the National Commission for Financial Markets (NCFM) to take on the responsibility for supervision of insurance and capital markets, non-state pension funds, and loan and savings associations. To make the new body operational, parliament appointed the administrative board and the management of the NCFM, which in turn approved the organizational structure on August 3, 2007;

c. The concept paper on "Rationalization of the Number of Employees in the Budgetary Sector for 2008-2010" was approved on September 28, 2007, imposing a limit on the public sector wage bill of 10 percent of GDP. Since then the paper has been further revised to include a time-bound plan to downsize public employment, implementation of a new wage system for public servants, and an assessment of the fiscal impact;

d. On September 28, 2007, the prime-minister approved an action plan for improving the tax arrears management. We have further updated the plan based on recommendations of the FAD TA mission;

e. The draft 2008 Budget Law approved by the government on September 27, 2007 includes an assessment on financial performance in 2006 of state-owned enterprises and joint stock companies in which the state is the majority shareholder.

f. The plan for converting government's debt into state securities was adopted by the Ministry of Finance on September 10, 2007 and by the National Bank of Moldova on September 12, 2007.

At the same time, four structural benchmarks were not observed:

- The end-September structural benchmark on adoption of the targeted social assistance system was implemented on October 3, 2007. The government approved the draft Law on Social Assistance, which aims at ensuring a guaranteed minimum monthly income to vulnerable households based on proxy means testing;
- The passage of the legislation ensuring that ANRE establishes tariffs for heat and water directly, rather than indirectly through the municipality, was not implemented because of legal uncertainty about the conformity of this measure with the constitutional division of responsibilities between local and central governments;
- Tariffs for water were raised to cost-recovery in October, but the heating tariffs in Chisinau were not increased.
- The municipal budget made only partial payment for the difference between the amount paid by households for heat and the cost recovery level. At end-September the arrears equaled about lei 50 million, down from lei 160 in April.

C. Program Objectives

4. The government's medium-term objectives are outlined in the newly developed National Development Strategy for 2008-2011 (NDS), which will replace the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP). Unlike earlier practices in developing national strategies, this document focuses on a well-defined list of strategic priorities, both economic and political. The draft NDS Strategy includes five fundamental priorities:

- strengthen a modern democratic state, based on the principle of rule of law;

- settle the Transnistrian conflict and promote the reintegration of the country;
- enhance national economic competitiveness;
- develop human resources, raise the employment level, and promote social inclusion, and;
- promote regional development.

In addition to setting out our medium-term priorities, one of the NDS goals is to integrate in one single strategy the key external commitments of the Republic of Moldova (without substituting bilateral policy papers) and to establish a single system to monitor the fulfillment of these commitments.

5. The main objective for 2008 remains unchanged: facilitating poverty reduction by ensuring macroeconomic stability and sustainable economic growth. We hope to achieve this objective by modernizing the public service and reducing state involvement in the economy, developing the financial sector, creating a favorable investment environment, encouraging the development of small and medium businesses, rehabilitating infrastructure, promoting exports, creating new jobs and providing social protection to vulnerable categories of the population. These objectives – that incorporate the achievement of the Millennium Development Goals – are reflected in the NDS.

D. Fiscal Policy

6. Fiscal policy for 2008 will remain tight, given continuing high inflation and the need to ensure macroeconomic stability and build confidence in the program. The government will keep a budget deficit of 0.5 percent of GDP. Any budget rectification will be discussed in the framework of the fourth review. Our priority is to channel overperformance to investments, which have a minimal inflationary impact.

7. While budget wages have been increased by 45 percent in 2006 and 12 percent in 2007, they remain insufficient for attracting and keeping qualified employees, many of whom have opted for a job in the private sector or abroad. To improve competitiveness of the public sector, wages will be increased by another 23 percent in 2008, though the total wage bill will be kept below 10 percent of the GDP, owing to a phasing in of the increases. However, we realize that raising salaries will not increase public sector effectiveness unless accompanied by bold reforms. For that purpose, the government plans to start implementation of the medium-term action plan for rationalizing the structure of employment in the budget sector for 2008-2010. which envisages:

- downsizing of employment by 10 thousands by 2010, with a initial reduction of 3 thousands in 2008, and

- the government approval of a draft law, which will consolidate all forms of remuneration in base pay for civil servants by end-September 2008, with a view to implementing it in the 2009 budget year.

8. Part of the savings from the optimization of staffing will be used towards improving the quality of public service. Moldovan authorities are to develop annual plans for the implementation of the program with plans for 2008 completed by end-March 2008, which should include, but not

be limited to budget sector staff inventory; review of wage and non-wage payments to staff; and assessment of sector needs for highly qualified staff. Restructuring in the education sector will focus on rationalization of educational establishments.

9. To promote foreign and domestic investments in 2007, we announced a major reform of the corporate income tax system, as well as a wide-ranging amnesty of tax arrears and a liberalization of capital legalization regulations. We are aware that these reforms imply certain risks, in particular with respect to budget revenues. To address these concerns, we intend to speed up the implementation of Tax Administration Strengthening Strategy. The plan, which was adopted in September 2007, has now been updated to reflect recommendations of the FAD TA mission. It aims at strengthening the tax arrears management system, which will improve accounting of tax arrears to allow distinction of arrears by vintage, introduce a set of prompt unconditional measures for forced arrears collection, amend the current legislation to ensure a shorter, more streamlined procedure for writing-off uncollectible tax arrears, and consolidate all functions for assessment and collection of arrears in a single agency. The State Tax Inspectorate (STI) will be reorganized along functional lines, beginning with headquarters. By March 2008, we will adopt legislation to allow STI to write off uncollectible tax arrears. At the same time, we will develop a modern accounting and information technology platform, and ensure adequate resources for these reforms.

E. Monetary Policy

10. In 2008 the National Bank of Moldova will continue to pursue its main objective of price stability. The monetary policy stance will remain tight with the aim to resume disinflation and achieve single digit levels by the year-end (December-to-December). For that purpose, real interest rates on sterilization operations will be kept sufficiently positive in real terms until disinflation is well entrenched. Moreover, we stand ready to promptly increase reserve requirements and/or interest rates at the first signs of reversal of trend disinflation. Liquidity pressures are expected to be further eased by the transfer of the remaining deposits of the Social Fund, the Health Fund and territorial budgets from commercial banks to the Treasury Single Account at the NBM at end-2007, and the introduction of full zero-balancing by end-June 2008. To further improve effectiveness of monetary policy, the NBM will streamline its instruments by adopting a base rate as a main policy rate to remove the ambiguity between the two rates, and shifting sterilization operations to shorter maturities. At the same time, the planned securitization of the government debt to NBM in the first quarter of 2008 will provide the central bank an additional liquidity management tool.

11. The NBM will maintain a flexible exchange rate regime to ease the burden on monetary policy tightening. If inflows of foreign exchange and appreciation pressures persist, the NBM will intervene only to smooth excessive fluctuations of the national currency, while allowing markets to determine the exchange rate. We expect foreign exchange reserves to reach USD 1.7 billion, or at least 3 month of imports, by the end of 2008. While continued appreciation of the leu and growing sterilization costs may weaken the financial position of the NBM, we are committed to the disinflation objective, which will not be compromised for NBM profitability considerations. Any need to recapitalize the NBM will be met by the government in accordance with the NBM law. The NBM will develop an early warning system that it will use to detect potentially disruptive economic developments, including large capital flows

12. We are planning to move to a formal inflation targeting (IT) framework at an appropriate time in the future. Although we are aware that Moldova is not yet ready to implement IT, we are nevertheless undertaking intermediary steps to improve the current framework of monetary policy and lay the foundation for a new regime. Starting with the 2008 Budget, the Budget Law will no longer oblige the NBM to roll over state securities, including those acquired through securitization. Instead, the NBM and the Ministry of Finance will conclude yearly agreements on the annual redemption of state debt to the NBM. We will further improve our communication strategy and policy transparency to raise public awareness of risks to inflation and to strengthen the signaling function of the NBM. To help us achieve our objectives, we have requested technical assistance—a long-term advisor— from the Fund in monetary research and capacity building for monetary policy implementation. As a first step, in line with MCM TA recommendations, the NBM will restructure its research and monetary policy department, and will hire new qualified staff.

13. The NBM will extend its supervision over all parts of the payment system, including those that are operating outside the central bank

F. Financial Sector Reforms

14. In order to strengthen competition in the banking system, we intend to accelerate privatization of Banca de Economii (BEM) to a strategic banking investor. Our previous plan to perform an independent valuation of the bank prior to bringing it to market has stalled due to unwarranted demands by the selected evaluation advisor. Instead, we have now decided to hire directly a privatization advisor. For that purpose, by end-March 2008 we will announce a tender for selecting a privatization advisor and by end-September 2008 will sign a contract with the winner with a 6-month timeframe for bringing BEM to market. In the meantime, the government and the NBM will continue to abstain from granting preferential treatment to the bank, including as regards taxation, prudential regulation or access to resources.

15. The establishment of the NCFM in June 2007 as a regulatory and supervisory body for the non-bank financial sector was the first step aiming at strengthening this segment of the financial market. We will ensure a solution for the stable financing of the NCFM, and financial sector supervisory/regulatory agencies will be required to conclude formal agreements of cooperation with each other. The medium-term goal is to promote development of capital and insurance markets, the market for non-state pension funds, and the micro-credit institutions by reducing risks and vulnerabilities, increasing transparency, updating the regulations in conformity with the best international practices, and encouraging introduction of new financial products. To this end, we intend to request technical assistance from international financial institutions.

16. The government and the NBM will continue to strengthen the supervisory and regulatory framework for the financial system and ensure transparency to promote stability and steady development. Following the recommendations of the recent FSAP update, to preserve independence and adequate powers of financial sector regulators, all entities licensed, regulated and supervised by the NBM and/or the NCFM have been excluded from the provisions of the law #235 on the Core Principles of Regulating Entrepreneurial Activity, which was adopted by Parliament at end-2007. Similarly, the draft licensing law now before Parliament will also exclude the financial sector and delegate the full licensing authority in this area to the NBM and the NCFM. Further, to

strengthen transparency of bank ownership and control, following FSAP update recommendations, we will step-up our efforts in identifying beneficial owners of banks and will study best international practices, especially those of EU countries, in applying '*fit and proper*' tests for significant shareholders.

17. The parliament of Moldova has adopted a new Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) Law (drafted with the assistance of the IMF and other partners). We will continue revision of associated laws to bring the AML/CFT framework of Moldova in conformity with the international standard. With the assistance of the IMF and others, we intend to strengthen the capacity of the Financial Intelligence Unit, as well as of the NBM in preventing and combating money laundering and the financing of terrorism, and streamline AML/CFT procedures to reduce the burden of compliance.

G. Other Structural Reforms

18. External shocks faced by the Republic of Moldova during the last two years have revealed the country's limitations with regard to competitiveness and resilience towards potential macroeconomic risks. Government agenda for 2008 will include structural measures aimed at building the economy's resilience to external shocks and laying a sustainable foundation for strong inclusive growth. In this context, the central public administration reform, as well as the reform of the business regulatory framework will continue, while measures will be taken to encourage private sector investment. To increase competitiveness, special attention will be paid to improving the quality of infrastructure. To that effect, we will ensure that public investment in infrastructure is sustained at a high level.

Privatization, Trade Policy and Investment Promotion

19. A component of our strategy will be the acceleration of the privatization of public assets to attract know-how and promote private sector development. A clear statement of our commitment to private sector development will be the selection of an advisor through an open tender by end-September 2008 to assess the modalities for the possible privatization of Moldtelecom. Our objective is to continue the privatization of state assets through a competitive and transparent process. Any adjustor for the use of possible excess privatization revenues will be discussed with the IMF during the fourth and subsequent reviews. In the meantime, in line with the recommendations of the IMF, OECD guidelines, and international best practice, we will seek technical assistance from international institutions to strengthen financial discipline of remaining state enterprises, set up procedures to select management of state enterprises through a competitive process.

20. By the end of this year, Moldova will benefit from an autonomous trade preferences regime with the EU. For businesses to benefit from the new trade regime, the government will make efforts to improve the quality of management systems in Moldova. In this context, a number of actions will be undertaken: (i) the National Program for the Development of Technical Regulations by Converting the Relevant Normative Acts of the EU will be fully implemented; (ii) the structure of the laboratories for testing and ensuring the product quality will be assessed and a strategic plan for further strengthening and development of the laboratories will be developed; (iii) the National

Training Program for Businessmen in Quality Management, Modern Techniques for Ensuring the Quality of Produced Goods (ISO), and Systems for Ensuring Safety at Enterprises (HACCP) will be developed and implemented; (iv) guidance manuals for consumers will be developed to increase public awareness and literacy in quality standards.

21. The National Competition Protection Agency will adopt a clear definition of state aid, to avoid confusion of such terms as subsidies, subventions, tax facilities, to set clear rules for granting state aid in 2008.

22. To encourage investment inflow into the national economy in 2008, Government will make efforts to implement the actions set by the 2008 Action Plan for the Implementation of the Strategy for Attracting Investments and Promoting Export for 2006-2015. Strengthening of small and medium business is one of the key elements that will contribute to economic growth and poverty reduction in the Republic of Moldova. To support SME development, the Organization for SME Sector Development was established, and its capacity will continue to be built next year. During 2008 Government will continue implementation of the actions set in the Strategy for SME Development Support and will ensure compliance with the provisions of the SME Law.

23. To diversify ways to attract investments, the Law on Industrial Parks was approved. Thus, based on the performance indicators for investment attraction to the North, Center, and South regions we are planning to establish the first pilot industrial parks in 2008 in several settlements in these regions. These projects will have a minor impact on the budget, and will be implemented in a way that will eliminate any economic distortions. Government will be looking for ways to attract private investors in the process of industrial parks' management.

24. The government approved the law on public-private-partnerships (PPP) in December 2007. Parliament will adopt the law by end-July 2008, and the PPP unit will be fully operational by the end of 2008. In addition to reporting to parliament any contingent liabilities that could be introduced through this mechanism, and assessing the potential fiscal impact that would be included in the budget, we intend to consult with the IMF before concluding any significant PPP arrangements.

25. The non-accumulation of external payments arrears, as defined in the TMU, will constitute a continuous performance criterion, as will our commitment not to impose or intensify restrictions on current payments, introduce multicurrency practices, including bilateral payments agreements that are inconsistent with Article VIII, or imposing or intensifying import restrictions for balance of payments reasons. The government will remove the recently imposed quantitative import restrictions on meat and dairy products by June 2008.

Enhancing the Business Environment and Regulatory Reform

26. With the aim to improve the business climate, the government intends to streamline the regulatory environment in the non-financial sector by substantially reducing excessive licensing, permit and authorization requirements; burdensome and loosely regulated activities of controlling bodies; and proliferation of public services provided for fees. In particular, the new licensing law that will be effective by March 2008, will establish a more liberal, consolidated and transparent licensing system valid for all licensing authorities except for the NBM and the NCFM, and set up a

free of charge access for the public (through the internet) to register licenses. At the same time, Government will take steps to optimize the institutional structure and the functions of the state control bodies, focusing mostly on supervision of activities in the non-financial sector without on-site visits, and carrying out inspections only if information is gathered during supervision that shows that enterprises are violating current legislation. Starting with 2008, all informative notes accompanying new draft acts will include regulatory impact analyses. In addition, during 2008 one stop-shop services will be launched for relevant public services. Insolvency legislation will be reviewed taking into account the best international bankruptcy practices.

27. Tariffs for natural gas and electricity have stayed at cost-recovery levels, for all consumer categories. Moreover, as energy prices change, these tariffs will also adjust accordingly in line with the ANRE methodology. As a prior action, tariffs for heat will be set at the cost-recovery level according to the ANRE methodology. As originally planned, the new system of targeted social benefits will be put in place by September 30, 2008. As an interim measure, appropriate social assistance for those that cannot afford the higher tariffs will be put in place

Table 1. Prior Actions, Performance Criteria and Structural Benchmarks

Measure	Due	Status	Note
Proposed prior actions			
Amend the Law #235 to exclude all entities licensed, regulated and supervised by the NBM and/or the NCFM from its provisions.		Implemented	The amendments to the Law#235 were passed by Parliament in February 2008.
Heat tariffs received by utilities will be set at cost-recovery of lei 540, following the ANRE methodology.		Implemented	Heat tariffs were restored to cost-recovery in January 2007.
Proposed performance criteria			
Neither government nor the NBM will provide preferential treatment to Banca de Economii (whether the tax treatment, access to general government deposits, or prudential forbearance).	Continuous		
Announce tender for privatization advisor to Banca de Economii.	31-Mar-08		New condition
Adoption of legislation to (i) give the STI the right to write-off uncollectible tax arrears and (ii) shift all tax audit, assessment, and collection powers to STI.	31-Mar-08		New condition, modified from the end-March 2008 SB in the 2007 program.
Adopt a new Licensing Law to exclude all entities licensed, regulated and supervised by the NBM and/or the NCFM from its provisions.	31-Mar-08		New condition
Sign the contract with the privatization advisor for Banca de Economii with a six-month time frame for bringing the bank to market.	30-Sep-08		New condition
Proposed structural benchmarks			
Heat tariffs received by utilities remain at cost recovery. A lower tariff than provided by ANRE methodology would imply new domestic expenditure arrears under the program.	Continuous		New condition
Outstanding stock of NBM claims on government fully securitized.	31-Mar-08		
Introduction of a system whereby the State Treasury ensures that the balances in commercial banks of the social insurance budget (BASS) and the mandatory health insurance fund are zero-ed out on a daily basis.	30-Jun-08		
Remove quantitative restrictions on imports of meat and dairy products.	30-Jun-08		New condition
Introduce the targeted social assistance system throughout Moldova.	30-Sep-08		
The government approval of a draft law, which will consolidate all forms of remuneration in base pay for civil servants, with a view to implementing it in the 2009 budget year.	30-Sep-08		New condition
Selection of an advisor through an open tender to assess the modalities for the possible privatization of Moldtelecom.	30-Sep-08		New condition
Reduce public employment by 3000 people.	31-Dec-08		New condition

TECHNICAL MEMORANDUM OF UNDERSTANDING

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

I. PROGRAM ASSUMPTIONS

2008

2. Loan disbursements of $73.5 million.

3. Receipts to the general government budget of privatization proceeds in the amount of MDL 131 million in 2008.

4. For program monitoring purposes, U.S. dollar denominated components of the NBM balance sheet will be valued at the program exchange rate. The program exchange rate of the Moldovan leu (MDL) to the U.S. dollar has been set at MDL 13.2911/$. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the cross rates USD/€ = 1.2660, USD/£= 1.8702, SDR/USD = 0.6773.

5. To calculate the adjustments for disbursements from external sources exceeding the programmed amounts, the actual exchange rate at the time of the disbursement will be used. To calculate the adjustments for shortfalls of disbursement, the assumed exchange rate in the program for that disbursement will be used.

II. REPORTING REQUIREMENTS

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

III. PROGRAM TARGETS AND DEFINITIONS

Floor on the Stock of Net International Reserves (NIR)

(In millions of lei)

Position on	Minimum Levels Net international reserves
March 31, 2008	15,359
June 30, 2008	16,403 (indicative target)
September 30, 2008	17,918 (indicative target)
December 31, 2008	20,160 (indicative target)

7. **Net international reserves of the NBM** in convertible currencies are defined as gross reserves minus reserve liabilities in convertible currencies. For program monitoring purposes, gross reserves of the NBM are defined as monetary gold, holdings of SDRs, reserve position in the Fund, and holdings of foreign exchange in convertible currencies that are readily available and controlled by the NBM, including holdings of securities denominated in convertible currencies that are freely usable for settlement of international transactions, calculated using program assumptions on bilateral exchange rates. Excluded from reserve assets are capital subscriptions to foreign financial institutions, long-term non-financial assets, funds disbursed by the World Bank or other international institutions assigned for on-lending and project implementation, assets in nonconvertible currencies, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets (futures, forwards, swaps, and options). Reserve liabilities in convertible currencies are defined as use of Fund credit, and convertible currency liabilities of the NBM to nonresidents with an original maturity of up to and including one year. Excluded from reserve liabilities are liabilities with original maturities longer than one year.

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

(In millions of lei)

Position on	Maximum level NDA	Maximum level Reserve Money (Indicative target)
March 31, 2008	-5,713 (performance criterion)	9,646
June 30, 2008	-6,422 (indicative target)	9,981
September 30, 2008	-7,363 (indicative target)	10,555
December 31, 2008	-8,717 (indicative target)	11,443

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

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

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

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

	Cash balance
Cumulative change from December 31, 2007	
March 31, 2008 (performance criterion)	150
June 30, 2008 (indicative target)	0
September 30, 2008 (indicative target)	-100
December 31, 2008 (indicative target)	-284

11. The **general government** is defined as comprising the central and local government budgets. The central government includes also the Social Insurance Fund, the Health Insurance Fund, special and extrabudgetary funds, and foreign-financed investment projects. The local government includes also special and extrabudgetary funds. The authorities will inform the Fund staff of any new special or extrabudgetary funds that may be created during the program period to carry out operations of a fiscal nature and will ensure that these will be included in the general government. Excluded are any government-owned entities with a separate legal status. Net credit of the banking system to general government is defined as outstanding claims of the banking system on the general government (exclusive of the claims associated with accrued interest, tax and social contribution payments by commercial banks, and foreign financed on-lending by banks), including overdrafts, direct credit and holdings of government securities, less deposits of the general government (excluding accrued interest on government deposits, and including the accounts for foreign-financed investment projects).[1] The Ministry of Finance will provide data on the holdings of government securities and foreign-financed investment projects.

12. The **quarterly limits on the overall cash deficit of the general government** are cumulative and will be monitored **from the financing side** as the sum of net credit of the banking system to the general government (excluding the change in the stock of government securities issued to recapitalize the central bank), the general government's net placement of securities outside the domestic banking system, other net credit from the domestic non-banking sector to the general government, the general government's receipt of disbursements from external debt[2] for direct budgetary support and for specific projects minus amortization paid, and privatization proceeds stemming from the sale of the general government's assets, after deduction of the costs directly associated with the sale of these assets.

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

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

13. The **quarterly limits on the general government wage bill** are cumulative and measured as the sum of total salaries, bonus payments and other types of remuneration, social security contributions to the National Social Insurance House, and contributions to the National Health Insurance Company paid to all employees in the general government sector as defined in paragraph 11, excluding wages paid to employees of the National Social Insurance House and the National Health Insurance Company. For 2007, the general government wage bill based on such a definition amounted to 4,970 million lei.[3]

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

	Indicative Target
Cumulative change from December 31, 2007	
March 31, 2008	1,286
June 30, 2008	2,714
September 30, 2008	4,138
December 31, 2008	5,517

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

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

[3] For the calculation of the total general government wage bill the following accounts for central government, local government, and special funds from the Treasury system in the Ministry of Finance will be used: 111, 112, 1161.

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

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

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

16. The term debt has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), adopted August 24, 2000).[4] This performance criterion applies not only to debt as defined above, but also to commitments contracted or guaranteed for which value has not been received.

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

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

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

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

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

IV. ADJUSTERS

21. In the event that privatization receipts exceed the program assumptions, the limits on the overall cash deficit of the general government will not be increased.

22. In case disbursements of external loans exceed the program assumptions, the limits on the overall cash deficit of the general government will be increased by the corresponding magnitude up to a cumulative cap of lei 200 million. In case of shortfalls, the limits will be decreased by the full amount.

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

Table 1. Moldova: Quantitative Performance Criteria and Indicative Targets, December 31, 2007–December 31, 2008 1/ 2/

	31-Dec-07	31-Mar-08	30-Jun-08	30-Sep-08	31-Dec-08
			Indicative	Indicative	Indicative
		Proj.	Proj.	Proj.	Proj.
1. Quantitative performance criteria					
		(In millions of lei unless noted otherwise)			
Floor for general government fiscal balance	...	150	0	-100	-284
Adjusted floor for general government fiscal balance 3/	-134	...	...	...	...
Ceiling on net domestic assets of the NBM (level)	-5,345	-5,713	-6,422	-7,363	-8,717
Floor on net international reserves of the NBM (level)	14,882	15,359	16,403	17,918	20,160
Ceiling on contracting or guaranteeing of non-concessional external debt of the general government (Euro million)	60	9	9	9	9
EBRD/EIB road project	60	0	0	0	0
CEB health loan	0	0	0	0	0
Other	0	9	9	9	9
2. Continuous performance criteria					
Ceiling on accumulation of external payment arrears	0	0	0	0	0
		(In millions of lei)			
3. Indicative targets					
Ceiling on reserve money (level)	9,537	9,646	9,981	10,555	11,443
Ceiling on change in domestic expenditure arrears of the general government	150	0	0	0	0
Ceiling on the general government wage bill	4,966	1,286	2,714	4,138	5,517
		(In millions of lei, unless noted otherwise)			
4. Baseline assumptions					
Concessional external debt financing	603	170	350	591	808
in millions of dollars	53	15	31	53	73
Privatization receipts	407	50	90	110	131

Sources: Moldovan authorities; and Fund staff estimates.

1/ Numbers for 2008 refer to cumulative flows from end-2007, unless noted otherwise. Quantitative targets are based on the accounting exchange rate of MDL 13.2911/US$.

2/ All variables are stocks, except general government fiscal balance and concessional external debt borrowing, which are flows.

3/ In case disbursements of external debt exceed the program assumptions, the limits on the overall cash deficit of the general government will be increased by the corresponding amount up to a cumulative cap of MDL 200 million. In the case of shortfalls, the limits will be decreased by the full amount.

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

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

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