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Republic of Moldova: Third Reviews Under the Extended Arrangement and Under the Three–Year Arrangement Under the Extended Credit Facility, and Request for Modification of Performance Criteria—Staff Report; Staff Supplement; Press Release.

In the context of the Republic of Moldova, the following documents have been released and are included in this package:

- The staff report for the Republic of Moldova, prepared by a staff team of the IMF, following discussions that ended on May 12, 2011, with the officials of Moldova on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 28, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the Debt Sustainability Analysis
- A Press Release dated July 13, 2011.

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

Letter of Intent sent to the IMF by the authorities of Moldova*
Memorandum of Economic and Financial Policies by the authorities of Moldova*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

Third Reviews Under the Extended Arrangement and Under the Three–Year Arrangement Under the Extended Credit Facility, and Request for Modification of Performance Criteria

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

Approved by Juha Kähkönen and Christian Mumssen

June 28, 2011

Executive Summary

The economy has broadly recovered from the recession, and the outlook is positive. After reaching almost 7 percent in 2010, GDP growth rose further in early 2011, driven in part by exceptionally strong exports. Moreover, core inflation is contained, the structural fiscal deficit has declined, and financial stability has strengthened. On the downside, rising energy prices press on headline inflation, unemployment remains stubbornly high, and persistent political instability takes its toll on the business climate. Nevertheless, the outlook is for robust growth and single-digit inflation in 2011–12, barring further adverse shocks.

The Fund-supported program is on track. All end-March 2011 quantitative performance criteria and applicable structural benchmarks were met. The authorities are requesting modification of two performance criteria for end-September 2011 and end-March 2012.

The key objectives for the rest of the program are to consolidate macroeconomic stability and accelerate structural reforms. The policy discussions focused on:

- **The pace of fiscal adjustment in 2011–12.** The authorities and staff concurred that the 2011 budget, as agreed in the context of the second program review, remains appropriate, and agreed on measures to complete the targeted fiscal adjustment by the end of the program.
- **The need for further gradual monetary tightening in the face of rising energy prices and strengthening demand**. It was agreed that a rise in the mandatory reserve requirement ratio from 11 percent to 14 percent adequately addresses current inflation concerns.
- **Critical structural reforms.** Wide-ranging reforms will support fiscal adjustment, strengthen financial stability, and promote private enterprise.

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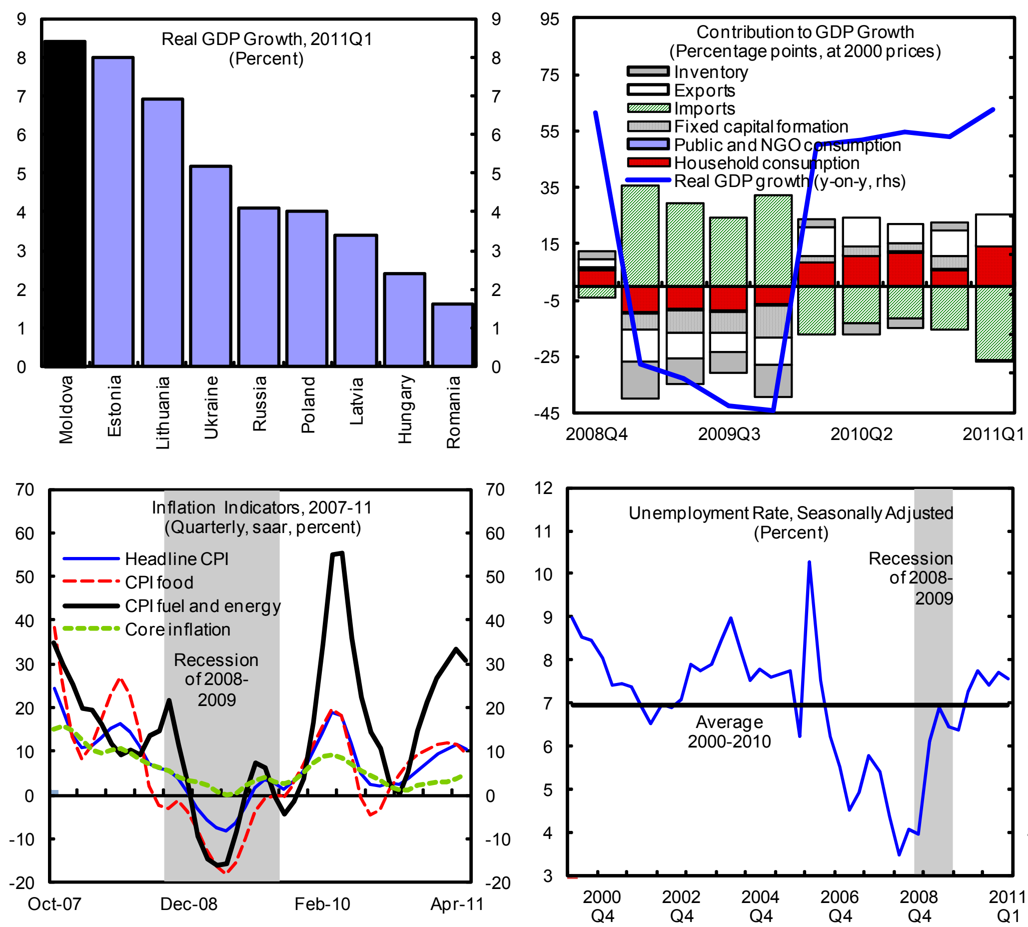
I. Recent Developments and Outlook

1. **Economic growth remains strong so far in 2011, while core inflation is contained.** After a rebound of 6.9 percent in 2010, GDP grew by 8.4 percent year-on-year in Q1, one of the highest rate in Central and Eastern Europe (chart). Growth was driven by private domestic demand (spurred by recovering inflows of remittances and capital and rising credit) and very strong exports (aided by buoyant external demand and favorable agricultural prices). Specifically, exports and imports surged by 63 percent and 44 percent respectively in January–April relative to a year ago. Headline inflation inched upward to 7 percent in May due mainly to rising energy prices, but core inflation remains contained around 3 percent as wages grew moderately and the exchange rate slightly appreciated (Figure 1). Unemployment, however, is still above its long-term average.



Sources: National Bureau of Statistics; national authorities: Haver Analytics; IMF, *WEO*; and IMF staff estimates.

2. **Growth is expected to settle at 5 percent in 2011–12 as the expansion begins to mature (text table).** Domestic demand financed by external inflows will underpin medium-term growth, with exports—supported by market liberalization and closer integration with the EU—making a steadily increasing contribution (Tables 1, 2). Accordingly, the current account deficit is expected to first widen to 11¼ percent of GDP in 2011, also reflecting higher costs of energy imports, and to decline gradually thereafter to 8 percent by 2016.

Inflation would reach 8 percent at end-2011, before easing toward the National Bank of Moldova (NBM) 5 percent inflation target in early 2013.

Medium-Term Outlook, 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
				Projections					
	(Percent change, unless otherwise indicated)								
Real GDP	7.8	-6.0	6.9	5.0	5.0	5.0	4.5	4.5	5.0
Inflation (end of period, y-o-y)	7.3	0.4	8.1	8.0	5.7	5.0	5.0	5.0	5.0
	(Percent of GDP, unless otherwise indicated)								
Current account balance	-17.3	-9.8	-10.2	-11.2	-11.0	-10.3	-9.5	-8.7	-8.0
Private investments	27.0	17.6	17.9	19.1	19.3	19.4	19.6	19.9	20.1
Fiscal balance	-1.0	-6.3	-2.5	-1.9	-0.8	-0.7	-0.7	-0.6	-0.5
External debt stock	55.6	66.0	68.1	65.6	69.4	69.5	68.4	66.5	63.5
Gross reserves in percent of next year short-term debt and current account deficit	76.4	64.0	61.1	64.8	68.0	64.4	67.6	70.2	73.1

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

3. **The political situation remains unsettled in the absence of an elected President.** Local elections held in June 2011 broadly reproduced the voter preferences from the last parliamentary elections. The inability to elect a President and secure a four-year mandate combined with strained relations within the governing coalition generates unwelcome political uncertainty.

4. **Volatile commodity prices and a still fragile global economy pose risks to the outlook.** Higher energy prices could reignite inflation pressures and further widen the current account deficit. Sovereign debt problems in Europe could affect Moldova through slowing demand in some of its trading partners. Political uncertainty remains a constant risk for the structural reform agenda. On the upside, the robust growth momentum evident in the last three quarters could carry on for longer than currently expected.

5. **The economy of the Transnistrian region stagnated despite continued massive public support financed by accumulation of external arrears.**[1] In 2010, the local output contracted by nearly 2 percent, and consumer prices increased by almost 13 percent. Approximately US$500 million of new arrears were accumulated on payments for imported natural gas from Russia, with total arrears reaching US$2.5 billion. The domestic-currency proceeds from gas deliveries were partly used to finance the large budget deficit.

6. **Moldova's risk of debt distress remains low (IMF Country Report No.)**. Public debt at end-2010 was moderate at 30 percent of GDP and is projected to decline thereafter. Moreover, public external debt largely consists of low-interest debt extended by international

[1] Transnistria is a breakaway region of Moldova outside the control of the central government. With the consent of the Moldovan authorities, IMF staff held discussions with the local authorities. The Moldovan authorities consent to the inclusion and publication of information on Transnistria in this staff report and the DSA.

development partners. However, private external debt is high at 45 percent of GDP, raising the economy's vulnerability to shocks. The public debt dynamics worsen if one adds to Moldova's liabilities the debt of the gas importing company "Moldovagaz"—majority-owned by Russia's Gazprom—stemming from the gas arrears accumulated by Transnistria. However, Moldova's risk of debt distress increases only to "moderate" under this highly hypothetical scenario.

II. Performance Under the Program

7. **The program is on track (SMEFP Tables 2, 3).** All performance criteria (PCs) for end-March 2011 and applicable structural benchmarks were met. Two indicative targets were missed: (i) delays in paying heating bills by the municipality of Chisinau led to accumulation of domestic expenditure arrears of about 0.1 percent of GDP, and (ii) the faster-than-expected economic recovery required higher levels of reserve money than targeted.[2] The municipality adopted a schedule of monthly payments to reverse the build-up of its arrears over the summer (SMEFP ¶9) and the National Bank has adequately tightened monetary policy in July. Box 1 reviews program performance to date.

III. Policy Discussions

8. **With the recovery essentially complete, the key policy objectives are to consolidate macroeconomic stability and accelerate structural reforms with a view to achieve the program objectives by end-2012.** In this context, the discussions focused on the measures needed to attain fiscal sustainability, the appropriate monetary policy in the face of rising commodity prices and strengthening domestic demand, steps to reinforce financial stability, and the critical structural reforms to raise sustainable growth.

A. Fiscal Policy

9. **The approved 2011 budget remains appropriate.** Compared to the second program review, revenue and spending projections for 2011 are unchanged, except for minor downward revisions to grants and capital expenditure. Budget execution is on track. The deficit in Q1 came lower than projected, as capital spending lagged partly due to capacity constraints. However the revenue performance, especially in VAT, did not match the strength of economic activity, raising concerns about tax collections. Staff advised the authorities to analyze the reasons for this apparent revenue underperformance and strengthen control over VAT collections and refunds. On the expenditure side, based on World Bank's proposals, the authorities will soon adopt a detailed action plan to overhaul the education sector (SMEFP ¶19).[3]

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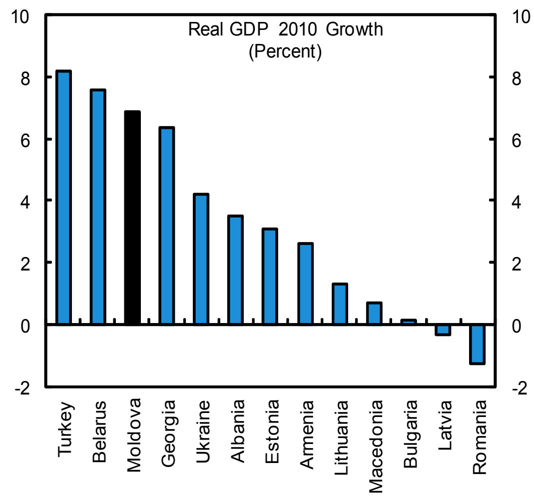
[2] The indicative ceiling on domestic expenditure arrears covers both central and local governments.

[3] The reform of the oversized education sector, which accounts for 60 percent of public employment and a quarter of budget expenditure is expected to deliver expenditure adjustments of about 0.3 percent in 2012–13 and 0.4 percent of GDP on a permanent basis afterwards.

Box 1. The Program at Half-Time

Halfway through its term, the Fund-supported program is on track despite lingering political uncertainties. Fundamental reforms to rationalize expenditure and boost revenue reversed the unaffordable public spending trends in 2008–09 and brought the fiscal deficit in 2010 well below target, with funds for social assistance increasing by 30 percent amid improved targeting. However, improvements in project implementation capacity are necessary to make full use of the available external financing for public investment. The NBM is successfully implementing its new monetary policy framework based on inflation targeting and a flexible exchange rate. Financial stability was strengthened with enhanced supervision, proactive prudential measures, and new bank resolution and crisis preparedness frameworks. Structural reforms helped to liberalize markets, facilitate cost recovery in the energy sector, and promote exports. Political uncertainty and the resulting early parliamentary elections in November 2010 delayed the implementation of several program benchmarks; this delay is already overcome in part and full catch-up is programmed by end-2011.

Strong policy performance contributed to quick and robust macroeconomic recovery. Bolstered by the credible stabilization program, Moldova's economy rebounded from the 2009 recession with one of the highest growth rates in the region. Inflation was contained at single digits, despite the surging energy prices and currency depreciation, while the NBM accumulated significant international reserves. Financial stability improved, with NPLs declining and bank profits rising since mid-2010 (¶13).



Sources: IMF, *World Economic Outlook*, April 2011; and IMF staff calculations.

Macroeconomic Performance, 2009–2012

	2009	2010		2011		2012	
		Prog.	Actual	Prog.	Proj.	Prog.	Proj.
	(Percent of GDP, unless otherwise indicated)						
Real GDP (percent change)	-6.0	1.5	6.9	3.0	5.0	5.0	5.0
Inflation (end of period, percent change)	0.4	5.0	8.1	5.0	8.0	5.0	5.7
Current account balance	-9.8	-10.2	-10.2	-11.2	-11.2	-10.2	-11.0
Fiscal balance	-6.3	-7.0	-2.5	-5.0	-1.9	-3.0	-0.8
Structural fiscal balance (excl. grants)	-7.5	-9.0	-5.4	-6.8	-4.4	-4.5	-3.1
External debt stock	66.0	78.6	68.1	83.6	65.6	85.7	69.4
Gross reserves (millions of U.S. dollars)	1,480	1,695	1,718	1,875	2,033	2,089	2,317
Gross reserves in percent of next year short-term debt and current account deficit	64.0	71.9	61.1	78.5	64.8	89.2	68.0

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

10. **Going forward, fiscal policy will seek to restore fiscal sustainability by the end of the program by further rationalizing current spending and raising revenue.** In 2012, lower grants and higher spending on goods and services due to a higher energy bill will be offset by revenue-enhancing measures (¶11) and lower debt service, keeping the headline and structural fiscal deficit below 1 percent of GDP, a level that can be financed without recourse to exceptional foreign assistance. Beyond 2012, continued gains in tax administration and expenditure rationalization reforms will open space for more growth-enhancing investment without a deterioration in the structural deficit. The authorities plan to adopt a Medium-Term Budget Framework for 2012–14 in line with these objectives.

Headline and Structural Fiscal Balances of the General Government, 2008-14

(Percent of GDP, unless otherwise indicated)

	2008	2009	2010		2011		2012		2013	2014
			Second Review	Actual	Second Review	Rev. Prog.	Second Review	Rev. Prog.	Projection	
Headline revenue and grants	40.6	38.9	38.3	38.3	37.8	37.6	38.1	38.2	38.1	38.1
Domestic revenue	38.9	36.8	35.6	35.5	35.2	35.2	35.5	36.0	36.1	36.1
Tax revenue	33.4	32.0	31.0	31.0	31.4	31.4	31.6	32.4	32.6	32.8
Non tax revenue	5.4	4.8	4.6	4.6	3.8	3.8	3.9	3.6	3.5	3.3
Grants	1.7	2.1	2.8	2.8	2.6	2.5	2.6	2.2	2.0	2.0
Structural revenue	36.8	37.4	35.3	35.4	35.1	35.2	35.4	35.9	35.8	36.0
Automatic stabilizers 1/	2.1	-0.7	0.4	0.2	0.0	-0.1	0.2	0.1	0.2	0.2
Expenditure and net lending	41.6	45.2	40.8	40.8	39.7	39.6	38.8	39.0	38.8	38.8
Current	34.5	40.3	36.2	36.2	34.6	34.6	33.5	33.6	32.6	31.9
Capital	7.0	5.0	4.8	4.8	5.2	5.0	5.5	5.5	6.3	7.0
Headline fiscal balance (incl. grants)	-1.0	-6.3	-2.5	-2.5	-1.9	-1.9	-0.7	-0.8	-0.7	-0.7
Structural fiscal balance (incl. grants) 2/	-3.3	-5.5	-2.8	-2.6	-2.0	-1.9	-0.9	-0.9	-1.0	-0.9
Structural fiscal balance (excl. grants) 2/	-5.1	-7.5	-5.6	-5.4	-4.6	-4.4	-3.5	-3.1	-3.0	-2.8
Memorandum:										
Output gap	6.2	-3.6	-0.3	-0.8	0.1	-0.2	0.5	0.4	0.7	0.4

Source: IMF staff estimates.

1/ Adjusted for one-off factors.

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

11. **Drawing on recommendations from an FAD technical assistance mission, the authorities' Medium-Term Budget Framework will feature a comprehensive tax policy reform to enhance revenue and achieve a more business-friendly tax system (SMEFP ¶12).** Notably, the system of cash VAT refunds for purchases of investment goods will be extended to the entire country with beneficial impact on investment. The associated costs will be more than offset by the re-introduction of a corporate income tax at a regionally competitive rate, removal of various tax exemptions and the reduced VAT rate on sugar, the beginning of a gradual alignment of excise rates with minimum EU requirements, and enhancements in the low real estate and road taxes (text table). A single presumptive tax will also be introduced to simplify taxation of small businesses. Meanwhile, tax administration reforms,

Estimated Impacts of the Main Tax Policy Changes in 2012 1/

(Percent of GDP)

Profit tax	1.1
Incl. reduction of tax expenditures	0.3
VAT	-0.7
Extension of cash VAT refunds	-0.9
Standard VAT rate on sugar	0.2
Excises	0.3
Personal income tax	0.1
Road Tax	0.1
Total	0.8

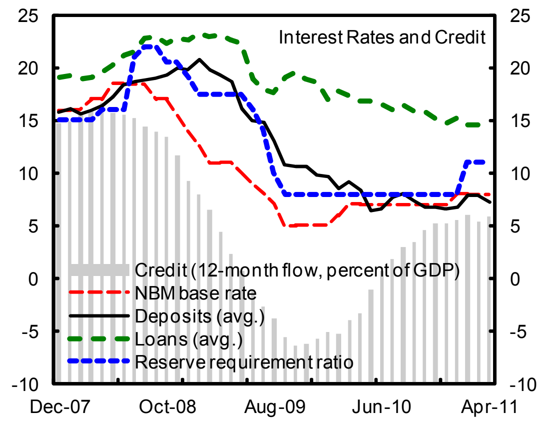
Sources: Moldovan authorities; and IMF staff estimates.

1/ Relative to the counterfactual of no measures.

including implementation of the new tax compliance strategy and measures to promote a taxpayer-friendly environment, are on course.

B. Monetary Policy

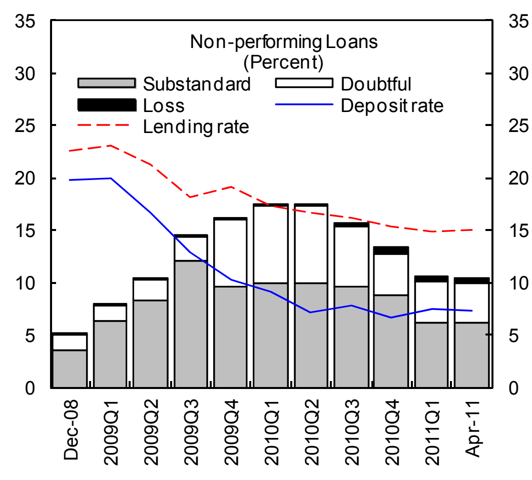
12. **In the face of renewed pressure on headline inflation, the NBM continues to gradually tighten monetary policy by raising the reserve requirement ratio to 14 percent effective July (SMEFP ¶15).** The NBM considered its early-2011 tightening measures—a 3-percentage-point increase in reserve requirements and a 100 basis points increase in the base rate—insufficient to keep inflation near target in the medium term. It argued that an additional 3 percent increment in reserve requirements in Q3 is needed to counteract pressures from rising energy prices and moderate credit-fueled domestic demand.[4] Moreover, the hike is expected to anchor inflation expectations and mop up the still ample bank liquidity. Given the rapid pace of credit expansion, staff agreed with the proposed tightening, but cautioned that monetary policy should generally accommodate first-round effects of higher energy prices and focus on core inflation, noting that to date the evidence of energy price pass-through to core inflation appears inconclusive.[5] The NBM and staff also agreed that the higher than projected influx of foreign exchange warrants sterilized reserve accumulation, as reserves are still moderate relative to standard adequacy measures (Table 2).



Sources: National authorities; and IMF staff calculations.

C. Financial Sector Policies

13. **Financial sector conditions have strengthened further.** In addition to continuing high levels of bank capitalization and liquidity, profits have been rising and non-performing loans have been steadily falling from a peak of 17.8 percent in July 2010 to 10.6 percent in April 2011 owing to both write-offs and a solid



Source: National Bank of Moldova.

[4] The rate of credit growth, with credit in foreign currencies valued at constant exchange rate, is projected to exceed 20 percent later in 2011, the upper bound of staff estimates of credit expansion consistent with macroeconomic stability and financial deepening (a credit growth rate of 15–20 percent in 2011–12).

[5] Staff also presented an analysis indicating that the pass-through from international energy prices to core inflation has been relatively moderate in Moldova.

pick-up in credit (chart and Table 5). A few small banks that remain plagued by high NPLs and low profitability are cleaning up their balance sheets. The authorities have also reached an understanding with commercial banks on sharing costs related to the failed Investprivatbank (IPB) (Box 2), and are finalizing work on the crisis preparedness and debt restructuring frameworks initiated under the second program review (SMEFP ¶18).

Box 2. Sharing the Costs of IPB Liquidation

The authorities and commercial banks have reached an understanding on sharing the burden of reimbursing IPB depositors following IPB's failure in June 2009. To avoid financial destabilization, individual deposits at IPB were immediately repaid in full from funds provided by the NBM to the state-owned Banca de Economii (BEM), in turn on-lent by BEM to IPB.[1]

Under the arrangement, by end-September 2011 the government will purchase the BEM's loan to IPB by issuing a low-interest 4½ -year bond for MDL 437 million (about 0.5 percent of GDP), while the NBM's loan to BEM will be extended correspondingly. Concurrently, BEM will receive about MDL 48 million from the Deposit Guarantee Fund, equal to the amount of insured deposits at the time of IPB's failure. The government will collect MDL 100 million lei over a period of 4 years (2012–15) through a special levy on commercial banks linked to deposit volume. The residual fiscal risk will be mitigated by the government's acquisition of claims on the remaining IPB assets, which will be used to defray the remaining cost of the bond's principal, while interest expenditure would rise insignificantly.

[1] For further details, see IMF Country Report 11/89.

D. Structural Reforms

14. **The government will continue to seek a durable resolution of the loss-making energy sector (SMEFP ¶21).** As a first step, the Chisinau heating company Termocom and other stakeholders have concluded in May a memorandum of understanding (MOU) establishing a mechanism to ensure timely payments between all parties concerned and eliminate all current arrears before the next heating season. By end-September 2011, the government will also adopt measures aimed at addressing the heating company Termocom's pricing deficiencies and thus guarantee full cost recovery for energy providers and reduce fiscal risks (SMEFP ¶22).

15. **The authorities will continue efforts to improve the business climate and promote exports to raise sustainable growth.** The government has removed the export ban introduced in early 2011 on wheat exports and has committed to eliminate other trade barriers (SMEFP ¶24). Meanwhile, the government is working on a plan to implement EU food safety standards and thus boost exports to the EU. The authorities are also exploring options, including with IFC, for denationalizing the large companies Moldtelecom, Air Moldova, and Banca de Economii, and aim to step up their privatization efforts for other large companies (SMEFP ¶23).

IV. Program Issues

16. **The program design and monitoring are broadly unchanged.** The review schedule and phasing of disbursements is outlined in SMEFP Table 1. New indicative targets for end-June 2012 have been proposed (SMEFP Table 2). The authorities are requesting an upward modification of the PC on the NBM's net international reserves (NIR) for end-September 2011 and end-March 2012 by US$30–60 million (1½–3½ percent), reflecting the plan to accumulate more reserves in response to higher-than-expected inflows as envisaged in the SMEFP dated March 24, 2011. In addition, they are requesting an upward modification of the PC on the NBM's net domestic assets for end-September 2011 and end-March 2012 to reflect the increase in the NIR, the increase in the reserve requirement ratio, and the revised growth/money demand outlook. The structural conditionality—existing and proposed—is summarized in SMEFP Table 3. The proposed structural benchmarks aim to support the budget (through re-introduction of CIT), reduce impediments to bank lending (through adoption of legal amendments to debt restructuring and collateral execution), ensure the financial soundness of the energy companies (through adoption of timely payment mechanism), and promote investment (through the extension of cash VAT refunds). To avoid technical breaches of the performance criterion on the budget deficit resulting from frequent delays in budget support grants, staff propose to introduce a capped adjustor for such grants, in addition to the existing adjustor on EC macro-financial assistance grants (TMU ¶24).

V. Staff Appraisal

17. **The economy is on the right track and program performance has been good.** The economy has essentially recovered from the 2009 recession, and robust growth continues amid positive outlook. Program implementation has largely caught up after some election-related delays in late 2010.

18. **Fiscal adjustment is on track to restore fiscal sustainability by end-2012.** The adjustment plan appropriately focuses on reducing current spending, while increasing investment and protecting the most vulnerable. The comprehensive tax policy and administration reforms will enhance revenue and improve the business environment.

19. **The current monetary stance is adequate.** Recent tightening will anchor expectations in view of higher energy prices and moderate domestic demand. Going forward, monetary policy should accommodate first-round effects of energy prices and focus on pressures to core inflation.

20. **Financial stability frameworks continue to strengthen.** Completion of the crisis preparedness and debt resolution frameworks will reduce vulnerability to shocks and promote financial intermediation. The burden-sharing arrangement between the government and commercial banks on IPB-related costs is welcome.

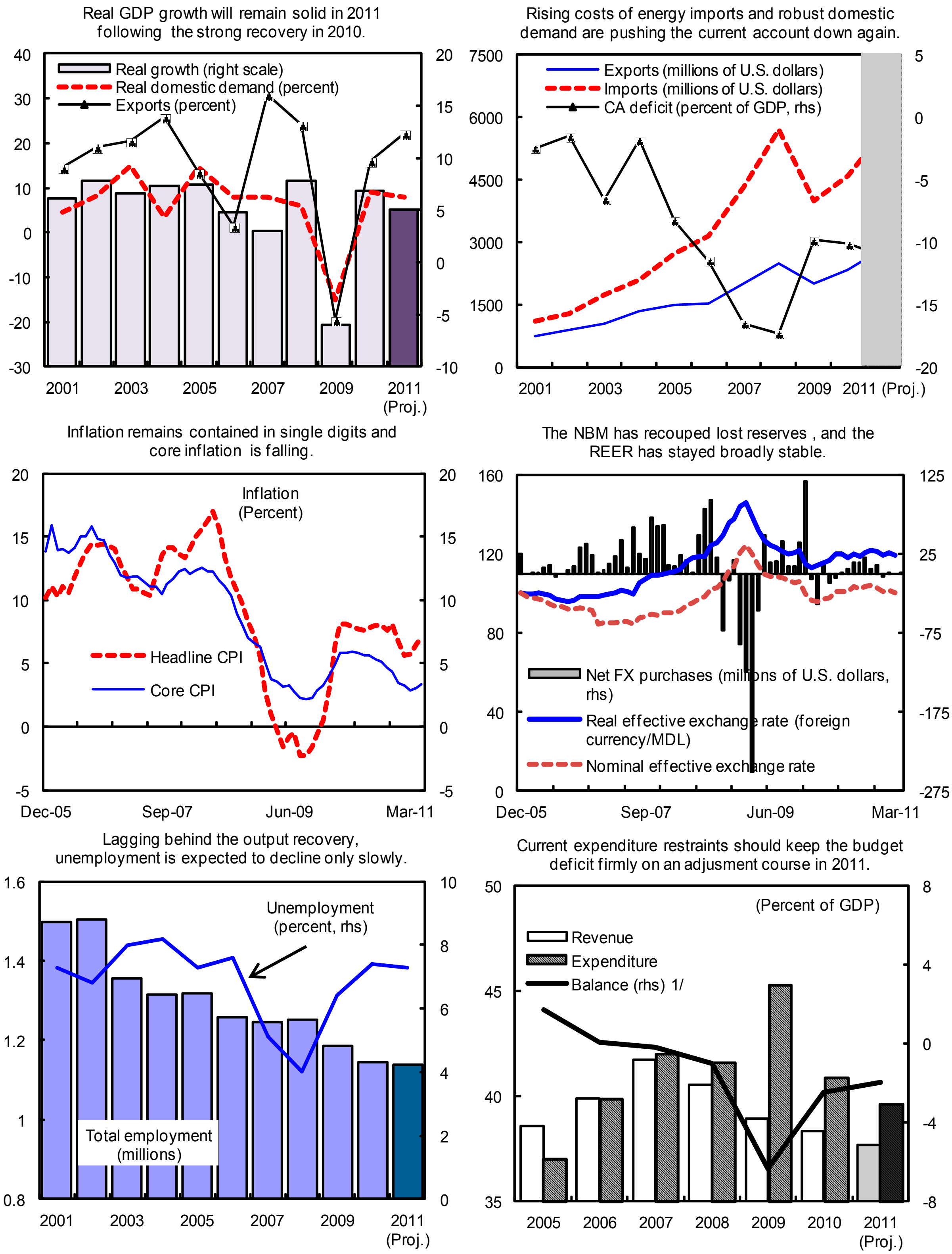
21. **Progress towards restoring financial sustainability in the energy sector has been slow.** The establishment of a reliable mechanism to guide current payments and measures to

reduce Termocom's pricing deficiencies should help. However, more comprehensive reforms to enhance operational and organizational efficiency are needed for sustained improvement.

22. **Improving the business climate and promoting exports remain key to sustaining strong growth over the medium term**. Moldova needs to add robust export expansion to the remittances-fueled domestic demand dynamics. Removing trade barriers is essential to support export growth and open access to new markets.

23. **Staff recommends completion of the third reviews and approval of the request for modification of the performance criteria for end-September 2011 and end-March 2012.** Policies for the remainder of 2011 and 2012 are appropriate to achieve the program's objectives.

Figure 1. Moldova: Economic Developments and Outlook



Sources: Moldova authorities; and IMF projections.
1/ General government overall balance.

Table 1. Moldova: Selected Indicators, 2008–16 1/

	2008	2009	2010	2011	2012	2013	2014	2015	2016
				Projection					
I. Real sector indicators	(Percent change, unless otherwise indicated)								
Gross domestic product									
Real growth rate	7.8	-6.0	6.9	5.0	5.0	5.0	4.5	4.5	5.0
Demand	6.0	-15.1	9.1	8.1	6.7	6.6	5.4	5.0	5.4
Consumption	5.7	-6.9	7.2	6.2	6.1	5.6	4.3	4.4	4.8
Private	5.8	-8.0	9.0	7.2	6.8	6.2	4.5	4.4	4.9
Public	5.0	-2.0	0.3	1.8	3.1	3.1	3.2	4.1	4.5
Gross capital formation	2.2	-30.9	17.2	14.8	9.8	11.2	10.6	7.6	7.6
Private	4.1	-32.1	18.6	15.0	8.0	8.0	8.0	8.0	8.0
Public	-4.5	-26.4	12.1	14.1	16.4	22.5	18.7	6.4	6.6
Nominal GDP (billions of Moldovan lei)	62.9	60.4	71.8	82.1	91.6	101.0	110.8	121.6	134.1
Nominal GDP (billions of U.S. dollars)	6.1	5.4	5.8	7.0	7.7	8.4	9.2	10.1	11.1
Consumer price index (average)	12.7	0.0	7.4	7.2	6.9	5.0	5.0	5.0	5.0
Consumer price index (end of period)	7.3	0.4	8.1	8.0	5.7	5.0	5.0	5.0	5.0
GDP deflator	9.2	2.2	11.2	8.8	6.3	5.0	5.0	5.0	5.0
Average monthly wage (Moldovan lei)	2,530	2,748	2,972	3,350	3,690	4,068	4,464	4,898	5,400
Average monthly wage (U.S. dollars)	243	247	240	286	309	340	371	406	446
Unemployment rate (annual average, percent)	4.0	6.4	7.4	7.3	7.0	6.5	5.5	5.0	5.0
Saving-investment balance	(Percent of GDP)								
Foreign saving	17.3	9.8	10.2	11.2	11.0	10.3	9.5	8.7	8.0
National saving	16.7	12.8	12.5	12.9	13.8	15.4	17.0	18.1	19.1
Private	10.6	14.5	9.9	9.8	9.0	9.8	10.8	11.8	12.7
Public	6.0	-1.7	2.7	3.2	4.8	5.5	6.3	6.3	6.4
Gross investment	34.0	22.6	22.7	24.1	24.8	25.6	26.5	26.8	27.1
Private	27.0	17.6	17.9	19.1	19.3	19.4	19.6	19.9	20.1
Public	7.0	5.0	4.8	5.0	5.5	6.3	7.0	7.0	7.0
II. Fiscal indicators (general government)									
Primary balance (cash)	0.2	-5.0	-1.7	-1.1	0.0	0.0	-0.1	-0.1	-0.1
Overall balance	-1.0	-6.3	-2.5	-1.9	-0.8	-0.7	-0.7	-0.6	-0.5
Stock of public and publicly guaranteed debt	22.0	32.4	30.3	29.6	29.9	27.9	26.6	24.7	22.5
III. Financial indicators	(Percent change, unless otherwise indicated)								
Broad money (M3)	15.9	3.2	13.4	15.4	13.1	10.3	9.7	9.7	10.3
Velocity (GDP/end-period M3; ratio)	2.0	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Reserve money	22.0	-10.1	15.9	22.0	12.0	…	…	…	…
Credit to the economy 2/	29.2	-13.4	16.2	20.0	16.8	…	…	…	…
IV. External sector indicators	(Millions of U.S. dollars, unless otherwise indicated)								
Current account balance	-1049	-534	-590	-783	-848	-865	-871	-876	-885
Current account balance (percent of GDP)	-17.3	-9.8	-10.2	-11.2	-11.0	-10.3	-9.5	-8.7	-8.0
Remittances and compensation of employees (net)	1,796	1,124	1,282	1,592	1,785	1,985	2,166	2,394	2,632
Gross official reserves	1,672	1,480	1,718	2,033	2,317	2,459	2,738	3,003	3,294
Gross official reserves (months of imports)	5.0	3.9	3.7	3.9	4.0	3.9	3.9	3.9	4.0
Exchange rate (Moldovan lei per U.S. dollar, period average)	10.4	11.1	12.4	…	…	…	…	…	…
Exchange rate (Moldovan lei per U.S. dollar, end of period)	10.4	12.3	12.2	…	…	…	…	…	…
Real effective exch.rate (average, percent change)	17.7	5.2	-7.4	4.3	0.1	1.5	1.5	1.5	1.5
Real effective exch.rate (end-year, percent change)	25.1	-16.2	5.3	1.1	1.5	1.5	1.5	1.5	1.5
External debt (percent of GDP) 3/	55.6	66.0	68.1	65.6	69.4	69.5	68.4	66.5	63.5
Debt service (percent of exports of goods and services)	14.9	19.9	17.5	19.4	17.5	14.2	15.6	16.2	15.8

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

2/ At constant program exchange rate.

3/ Includes private and public and publicly guaranteed debt.

Table 2. Moldova: Balance of Payments, 2007–16

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
				Est.	Projection					
Current account balance	-726	-1,049	-534	-590	-782	-848	-866	-872	-877	-886
Merchandise trade balance	-2,298	-3,223	-1,944	-2,179	-2,714	-3,002	-3,251	-3,454	-3,726	-4,058
Exports	1,373	1,646	1,332	1,631	2,006	2,259	2,566	2,976	3,378	3,799
Of which: wine and alcohol	136	196	159	178	226	251	263	265	285	299
Imports	-3,671	-4,869	-3,276	-3,810	-4,721	-5,261	-5,816	-6,429	-7,104	-7,857
Services balance	-25	-1	-44	-80	-87	-93	-69	-18	48	109
Exports of services	625	837	669	690	828	931	1,048	1,202	1,372	1,557
Imports of services	-650	-839	-713	-770	-916	-1,024	-1,118	-1,220	-1,324	-1,448
Income balance	416	599	303	471	629	728	800	861	961	1,123
Compensation of employees	593	763	497	663	843	961	1,083	1,192	1,329	1,475
Income on direct and portfolio investment	-170	-140	-138	-142	-161	-179	-205	-241	-262	-299
Income on other investment	-6	-24	-56	-50	-52	-54	-79	-90	-106	-53
Current transfer balance	1,180	1,577	1,151	1,198	1,391	1,519	1,654	1,738	1,840	1,940
Remittances	826	1,033	627	619	750	824	902	974	1,066	1,157
Budget transfers	87	136	103	137	141	178	223	219	214	205
Other transfers	267	408	421	441	500	516	530	545	560	577
Capital and financial account balance	996	1,260	72	375	768	837	971	1,104	1,112	1,188
Capital account balance	-8	-15	-18	-28	-20	-22	-24	-26	-28	-31
Financial account balance	1,004	1,274	89	403	787	858	995	1,130	1,140	1,219
Foreign direct investment balance	516	697	121	191	263	313	438	644	737	829
Portfolio investment and derivatives	-5	7	-5	5	3	6	7	7	8	9
Other investment balance	492	570	-26	208	521	539	550	479	395	381
Loans	279	344	-44	73	238	265	281	312	256	212
General government, net	-15	-21	-3	4	48	61	94	126	81	82
Private sector, net	294	365	-41	69	191	204	187	185	175	130
Other capital flows	213	226	18	135	283	274	269	168	139	169
Errors and omissions	117	86	58	71	0	0	0	0	0	0
Overall balance	387	297	-404	-144	-14	-12	105	232	235	303
Financing	-387	-297	404	144	14	12	-105	-232	-235	-296
Gross international reserves (increase: "-")	-529	-452	201	-294	-264	-284	-142	-279	-265	-291
Use of Fund credit, net	11	12	-15	175	151	217	-22	-30	-45	-80
Monetary authorities	11	12	-15	53	127	217	-22	-30	-12	-25
Purchases	33	38	0	61	133	234	0	0	0	0
Repurchases	-22	-25	-15	-8	-6	-16	-22	-30	-12	-25
General government	0	0	0	122	24	0	0	0	-34	-55
Purchases	0	0	0	122	24	0	0	0	0	0
Repurchases	0	0	0	0	0	0	0	0	-34	-55
Exceptional financing	131	143	219	264	127	79	59	76	76	75
Memorandum items:				(Percent of GDP, unless otherwise indicated)						
Gross official reserves (millions of U.S. dollars) 1/	1,334	1,672	1,480	1,718	2,033	2,317	2,459	2,738	3,003	3,294
Months of imports of good and services	2.8	5.0	3.9	3.7	3.9	4.0	3.9	3.9	3.9	4.0
Percent of short term debt and CA deficit	53.9	76.4	64.0	61.1	64.8	68.0	64.4	67.6	70.2	73.1
Pct of short-term debt at remaining maturity	92.2	100.9	86.0	86.6	91.2	94.7	87.3	88.5	90.7	92.1
Current account balance	-16.5	-17.3	-9.8	-10.2	-11.2	-11.0	-10.3	-9.5	-8.7	-8.0
Goods and services trade balance	-52.8	-53.3	-36.6	-38.9	-40.0	-40.3	-39.4	-37.7	-36.5	-35.7
Export of goods and services	45.4	41.0	36.8	39.9	40.5	41.5	42.9	45.3	47.2	48.4
Import of goods and services	-98.2	-94.3	-73.4	-78.8	-80.5	-81.8	-82.2	-83.0	-83.7	-84.1
Foreign direct investment balance	11.7	11.5	2.2	3.3	3.8	4.1	5.2	7.0	7.3	7.5
				(Percent change of amounts in U.S.dollars, unless otherwise indicated)						
Exports of goods	29.5	19.9	-19.1	22.5	23.0	12.6	13.6	16.0	13.5	12.5
Exports of services	34.3	33.9	-20.1	3.1	20.1	12.4	12.6	14.6	14.2	13.5
Imports of goods	38.9	32.6	-32.7	16.3	23.9	11.4	10.6	10.5	10.5	10.6
Imports of services	33.3	29.0	-15.0	8.0	18.9	11.8	9.2	9.2	8.6	9.3
Remittances and compensation	26.8	26.5	-37.4	14.1	24.2	12.1	11.2	9.1	10.6	9.9
Remittances	38.6	25.0	-39.3	-1.3	21.2	9.9	9.4	8.0	9.4	8.6
Compensation of employees	13.5	28.7	-34.8	33.5	27.0	14.0	12.8	10.0	11.5	11.0
Debt service (percent of exports of goods and services)	13.6	14.9	19.9	17.5	19.4	17.5	14.2	15.6	16.2	15.8

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.

Table 3. Moldova: General Government Budget, 2008–16

(Millions of Moldovan lei, unless otherwise indicated)

	2008	2009	2010	2011		2012		2013	2014	2015	2016
				Second Review	Rev. Prog.	Second Review	Rev. Prog.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	25,517	23,506	27,540	31,016	30,903	34,785	34,998	38,487	42,218	46,280	50,874
Revenues	24,449	22,218	25,540	28,859	28,859	32,401	33,010	36,435	40,045	44,230	48,993
Tax revenues	21,030	19,325	22,261	25,765	25,765	28,858	29,710	32,948	36,377	40,195	44,550
Profit tax	718	443	484	576	576	672	1,657	2,025	2,222	2,438	2,675
Personal income tax	1,480	1,465	1,545	1,812	1,812	2,033	2,149	2,235	2,453	2,692	2,968
VAT	9,097	7,596	9,146	10,668	10,668	11,848	11,448	12,621	13,850	15,197	16,751
Excises	1,574	1,540	2,074	2,472	2,472	2,951	2,951	3,346	3,892	4,506	5,226
Foreign trade taxes	1,150	905	1,080	1,238	1,238	1,368	1,399	1,522	1,655	1,862	2,047
Other taxes	424	414	459	482	482	551	538	593	651	714	788
Social fund contributions	5,430	5,587	5,985	6,833	6,833	7,564	7,688	8,520	9,359	10,269	11,322
Health fund contributions	1,157	1,377	1,487	1,685	1,685	1,871	1,879	2,086	2,294	2,517	2,775
Non-tax revenues	1,575	1,035	1,697	1,490	1,490	1,655	1,666	1,839	2,008	2,213	2,415
Revenues of special funds	1,844	1,858	1,583	1,604	1,604	1,888	1,635	1,648	1,661	1,822	2,027
Grants 1/	1,068	1,288	2,000	2,158	2,045	2,384	1,988	2,052	2,173	2,050	1,881
Budget support grants 2/	716	804	1,416	1,573	1,488	911	937	704	919	915	911
Foreign financed projects grants	352	334	584	571	543	1,472	1,051	1,348	1,254	1,135	970
Expenditure and net lending	26,147	27,343	29,326	32,612	32,499	35,408	35,726	39,214	42,990	47,021	51,600
Current expenditure	21,693	24,367	25,986	28,416	28,416	30,521	30,739	32,968	35,376	38,661	42,394
Wages	5,730	7,000	7,317	7,844	7,844	8,714	8,740	9,640	10,580	11,528	12,672
Goods and services	5,838	6,067	6,735	7,432	7,432	7,970	8,113	8,648	9,225	10,122	11,068
Of which: health fund	2,548	3,071	3,368	3,639	3,639	3,974	3,924	4,199	4,539	4,980	5,491
Interest payments	733	843	558	712	712	852	727	749	686	655	647
Domestic	569	639	374	515	515	660	532	556	508	491	479
Foreign	163	204	184	197	197	191	195	193	179	164	168
Transfers	8,875	10,156	11,082	12,052	12,052	12,653	12,758	13,547	14,464	15,895	17,498
Transfers to economy	1,681	1,197	1,094	1,129	1,129	1,204	1,077	1,074	1,024	1,124	1,213
Transfers to households	7,193	8,959	9,988	10,923	10,923	11,449	11,682	12,473	13,440	14,771	16,285
Of which: social fund	6,015	7,603	8,603	9,327	9,327	10,351	9,989	10,677	11,610	12,739	14,045
Other current expenditure	517	302	295	376	376	333	401	384	421	462	509
Net lending	36	-28	-90	-53	-53	-91	-53	-82	-90	-99	-117
Capital expenditure	4,419	3,004	3,431	4,249	4,135	4,979	5,040	6,329	7,704	8,459	9,323
Overall balance (cash)	-630	-3,837	-1,786	-1,596	-1,596	-623	-729	-727	-772	-741	-727
Primary balance (cash)	103	-2,994	-1,239	-884	-884	229	-1	21	-86	-86	-80
Change in arrears (+, increase)	0	212	-187	-50	-50	-48	-48	0	0	0	0
Overall balance (commitments)	-630	-4,049	-1,599	-1,546	-1,546	-575	-681	-727	-772	-741	-727
Primary balance (commitments)	103	-3,206	-1,052	-834	-834	277	47	21	-86	-86	-80
Financing	630	3,837	1,786	1,596	1,596	623	729	727	772	741	727
Budget financing	283	3,382	1,167	188	264	-1,417	-363	-783	-1,082	-527	-667
Central government	104	2,919	1,011	-157	-81	-1,507	-453	-948	-1,169	-527	-667
Net domestic	-519	1,073	-528	-125	134	-1,470	-452	-733	-767	82	439
Net foreign (excl. project loans) 3/	-313	1,774	1,441	-313	-495	-400	-364	-450	-402	-609	-1,106
Privatization	936	72	98	280	280	363	363	235	0	0	0
Local governments, *of which:*	343	245	-1	164	164	90	90	165	87	0	0
Privatization	343	170	237	176	176	90	90	165	87	0	0
Social fund	-48	26	213	181	181	0	0	0	0	0	0
Health fund	-117	193	-57	0	0	0	0	0	0	0	0
Project loans	347	456	619	1,408	1,331	2,040	1,091	1,510	1,854	1,268	1,394
Memorandum items:				(Billions of Moldovan lei)							
Public and publicly guaranteed debt	13.6	19.6	21.7	25.1	24.3	29.8	27.5	28.3	29.6	30.2	30.3
General Government debt, *of which:*	12.1	17.6	19.1	22.9	20.2	24.8	20.8	21.8	23.4	24.2	24.6
Domestic debt	3.5	5.1	5.3	5.6	5.6	5.8	5.4	5.4	5.5	5.2	4.9
Domestic expenditure arrears	0.2	0.5	0.3	0.1	0.2	0.3	0.2	0.0	0.0	0.0	0.0
External debt	8.4	12.0	13.6	17.1	14.4	18.8	15.2	16.3	17.9	19.0	19.7
Other public and publicly guaranteed debt 4/	1.7	2.0	2.6	2.2	4.1	5.0	6.7	6.5	6.1	6.0	5.7

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

1/ Includes "internal grants" of MDL 149.5 million in 2009, MDL 89.1 million in 2010, and MDL 14 million in 2011.

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

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, 2008–16 (Concluded)

(Percent of GDP, unless otherwise indicated)

	2008	2009	2010	2011		2012		2013	2014	2015	2016
				Second Review	Rev. Prog.	Second Review	Rev. Prog.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	40.6	38.9	38.3	37.8	37.6	38.1	38.2	38.1	38.1	38.1	37.9
Revenues	38.9	36.8	35.5	35.2	35.2	35.5	36.0	36.1	36.1	36.4	36.5
Tax revenues	33.4	32.0	31.0	31.4	31.4	31.6	32.4	32.6	32.8	33.1	33.2
Profit tax	1.1	0.7	0.7	0.7	0.7	0.7	1.8	2.0	2.0	2.0	2.0
Personal income tax	2.4	2.4	2.1	2.2	2.2	2.2	2.3	2.2	2.2	2.2	2.2
VAT	14.5	12.6	12.7	13.0	13.0	13.0	12.5	12.5	12.5	12.5	12.5
Excises	2.5	2.5	2.9	3.0	3.0	3.2	3.2	3.3	3.5	3.7	3.9
Foreign trade taxes	1.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Other taxes	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Social fund contributions	8.6	9.2	8.3	8.3	8.3	8.3	8.4	8.4	8.4	8.4	8.4
Health fund contributions	1.8	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Non-tax revenues	2.5	1.7	2.4	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Revenues of special funds	2.9	3.1	2.2	2.0	2.0	2.1	1.8	1.6	1.5	1.5	1.5
Grants 1/	1.7	2.1	2.8	2.6	2.5	2.6	2.2	2.0	2.0	1.7	1.4
Budget support grants 2/	1.1	1.3	2.0	1.9	1.8	1.0	1.0	0.7	0.8	0.8	0.7
Foreign financed projects grants	0.6	0.6	0.8	0.7	0.7	1.6	1.1	1.3	1.1	0.9	0.7
Expenditure and net lending	41.6	45.2	40.8	39.7	39.6	38.8	39.0	38.8	38.8	38.7	38.5
Current expenditure	34.5	40.3	36.2	34.6	34.6	33.5	33.6	32.6	31.9	31.8	31.6
Wages	9.1	11.6	10.2	9.6	9.6	9.6	9.5	9.5	9.5	9.5	9.5
Goods and services	9.3	10.0	9.4	9.1	9.1	8.7	8.9	8.6	8.3	8.3	8.3
Of which: health insurance fund	4.0	5.1	4.7	4.4	4.4	4.4	4.3	4.2	4.1	4.1	4.1
Interest payments	1.2	1.4	0.8	0.9	0.9	0.9	0.8	0.7	0.6	0.5	0.5
Domestic	0.9	1.1	0.5	0.6	0.6	0.7	0.6	0.6	0.5	0.4	0.4
Foreign	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Transfers	14.1	16.8	15.4	14.7	14.7	13.9	13.9	13.4	13.1	13.1	13.1
Transfers to economy	2.7	2.0	1.5	1.4	1.4	1.3	1.2	1.1	0.9	0.9	0.9
Transfers to households	11.4	14.8	13.9	13.3	13.3	12.6	12.8	12.3	12.1	12.1	12.1
Of which: social insurance fund	9.6	12.6	12.0	11.4	11.4	11.4	10.9	10.6	10.5	10.5	10.5
Other current expenditure	0.8	0.5	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Net lending	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital expenditure	7.0	5.0	4.8	5.2	5.0	5.5	5.5	6.3	7.0	7.0	7.0
Overall balance (cash)	-1.0	-6.3	-2.5	-1.9	-1.9	-0.7	-0.8	-0.7	-0.7	-0.6	-0.5
Primary balance (cash)	0.2	-5.0	-1.7	-1.1	-1.1	0.3	0.0	0.0	-0.1	-0.1	-0.1
Change in arrears (+, increase)	0.0	0.4	-0.3	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Overall balance (commitments)	-1.0	-6.7	-2.2	-1.9	-1.9	-0.6	-0.7	-0.7	-0.7	-0.6	-0.5
Primary balance (commitments)	0.2	-5.3	-1.5	-1.0	-1.0	0.3	0.1	0.0	-0.1	-0.1	-0.1
Financing	1.0	6.3	2.5	1.9	1.9	0.7	0.8	0.7	0.7	0.6	0.5
Budget financing	0.4	5.6	1.6	0.2	0.3	-1.6	-0.4	-0.8	-1.0	-0.4	-0.5
Central government	0.2	4.8	1.4	-0.2	-0.1	-1.7	-0.5	-0.9	-1.1	-0.4	-0.5
Net domestic	-0.8	1.8	-0.7	-0.2	0.2	-1.6	-0.5	-0.7	-0.7	0.1	0.3
Net foreign (excl. project loans) 3/	-0.5	2.9	2.0	-0.4	-0.6	-0.4	-0.4	-0.4	-0.4	-0.5	-0.8
Privatization	1.5	0.1	0.1	0.3	0.3	0.4	0.4	0.2	0.0	0.0	0.0
Local governments, *of which:*	0.5	0.4	0.0	0.2	0.2	0.1	0.1	0.2	0.1	0.0	0.0
Privatization	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.2	0.1	0.0	0.0
Social fund	-0.1	0.0	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Health fund	-0.2	0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	0.6	0.8	0.9	1.7	1.6	2.2	1.2	1.5	1.7	1.0	1.0
Memorandum items:											
Public and publicly guaranteed debt	22.0	32.4	30.3	30.6	29.6	32.7	30.0	28.0	26.7	24.8	22.6
General Government debt, *of which:*	19.3	29.1	26.6	27.8	24.6	27.2	22.7	21.6	21.1	19.9	18.3
Domestic debt	5.6	8.4	7.4	6.8	6.8	6.3	5.9	5.4	4.9	4.3	3.6
Domestic expenditure arrears	0.4	0.8	0.4	0.2	0.3	0.3	0.2	0.0	0.0	0.0	0.0
External debt	13.3	19.9	18.9	20.8	17.5	20.7	16.6	16.2	16.2	15.6	14.7
Other public and publicly guaranteed debt 4/	2.7	3.3	3.6	2.7	5.0	5.5	7.3	6.4	5.5	5.0	4.3

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

1/ Includes "internal grants" equivalent to 0.25 percent of GDP in 2009, 0.12 percent of GDP in 2010, and 0.02 percent of GDP in 2011.

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

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 4. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2010–12

(Millions of Moldovan lei, unless otherwise indicated)

	2010	2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Projection			
National Bank of Moldova									
Net foreign assets	18,372	18,838	18,646	19,387	20,430	20,138	19,721	20,598	21,380
NFA (convertible)	18,386	18,887	18,699	19,436	20,475	20,175	19,763	20,644	21,430
Gross reserves	20,877	21,359	21,625	23,236	24,396	24,983	25,361	26,233	27,927
Reserve liabilities	-2,490	-2,472	-2,926	-3,800	-3,921	-4,808	-5,598	-5,589	-6,496
Net domestic assets	-6,257	-6,184	-5,705	-5,489	-5,653	-5,338	-4,781	-4,935	-4,823
at program exchange rates	-7,496	-7,203	-7,293	-7,096	-6,500	-6,190	-5,754	-5,898	-5,508
Net claims on general government	-1,067	-528	-859	-1,233	-1,393	-1,179	-1,011	-1,228	-1,441
Credit to banks	-4,646	-5,026	-4,805	-4,173	-3,556	-3,445	-3,349	-3,388	-3,019
Other items (net)	-544	-629	-41	-84	-704	-714	-421	-319	-363
Reserve money	12,115	12,654	12,941	13,898	14,777	14,799	14,940	15,663	16,557
Adjusted for change in reserve requirement 1/	12,115	12,196	12,482	13,045	13,871	13,852	13,994	14,658	15,497
Currency in circulation	10,108	9,731	10,210	10,613	11,662	11,059	11,568	11,923	13,189
Banks' reserves	2,007	2,919	2,731	3,284	3,115	3,740	3,373	3,740	3,368
Required reserves 1/	1,295	1,835	1,839	2,317	2,445	2,542	2,539	2,680	2,810
Excess reserves 2/	712	1,084	892	968	670	1,198	834	1,060	558
Monetary survey									
Net foreign assets	18,121	17,481	16,724	16,667	18,009	17,728	16,972	17,528	18,465
NFA (convertible)	18,376	17,821	17,068	17,029	18,395	18,118	17,365	17,939	18,901
Of which: commercial banks	-11	-1,066	-1,631	-2,407	-2,081	-2,057	-2,397	-2,705	-2,529
Foreign assets of commercial banks	4,615	3,558	3,040	2,674	3,079	3,071	3,046	2,838	3,598
Foreign liabilities of commercial banks	-4,626	-4,624	-4,671	-5,081	-5,159	-5,128	-5,444	-5,544	-6,127
NFA (non-convertible)	-254	-340	-344	-363	-385	-389	-393	-411	-436
Net domestic assets	18,930	20,203	21,453	23,569	24,741	25,486	26,654	28,051	29,880
Net claims on general government	-187	299	54	-234	176	289	356	38	-276
Credit to economy	26,915	27,482	28,950	31,404	32,389	32,743	33,779	35,802	37,838
Moldovan lei	15,529	15,452	16,875	18,786	18,952	18,804	19,673	21,244	22,357
Foreign exchange	11,387	12,030	12,075	12,618	13,437	13,938	14,106	14,558	15,482
in U.S. dollars	937	1,007	1,045	1,092	1,120	1,165	1,188	1,224	1,285
Other items (net)	-7,799	-7,578	-7,551	-7,602	-7,824	-7,546	-7,481	-7,789	-7,682
Broad money (M3)	37,051	37,684	38,177	40,235	42,750	43,214	43,626	45,579	48,345
Broad money (M2: excluding FCD)	24,771	25,002	25,508	26,846	28,792	28,873	29,360	30,703	32,876
Currency in circulation	10,108	9,731	10,210	10,613	11,662	11,059	11,568	11,923	13,189
Total deposits	26,944	27,953	27,967	29,622	31,088	32,155	32,058	33,656	35,157
Domestic currency deposits	14,662	15,269	15,298	16,233	17,129	17,814	17,792	18,780	19,688
Foreign currency deposits (FCD)	12,280	12,682	12,669	13,389	13,958	14,341	14,266	14,876	15,469
in U.S. dollars	1,010	1,062	1,097	1,159	1,163	1,198	1,201	1,250	1,284
Memorandum items:									
Reserve money growth (percent change; annual)	15.9	22.6	23.6	26.3	22.0	17.0	15.4	12.7	12.0
Adjusted for change in reserve requirement 1/	15.9	18.2	19.2	18.6	14.5	13.6	12.1	12.4	11.7
Broad money growth (percent change; annual)	13.4	15.4	15.9	15.7	15.4	14.7	14.3	13.3	13.1
Credit to economy, (percent change, annual) 3/	16.2	17.5	18.5	21.5	20.0	19.2	15.5	12.9	16.8
in local currency	17.6	14.9	19.0	24.0	22.0	21.7	16.6	13.1	18.0
in U.S. dollars 3/	14.5	20.7	17.8	18.2	17.3	16.1	14.2	12.6	15.3
Gross international reserves (millions of U.S. dollars)	1,718	1,788	1,872	2,012	2,033	2,087	2,136	2,205	2,317
Percent of domestic-currency broad money	84	85	85	87	85	87	86	85	85
Net international reserves (millions of U.S. dollars)	1,513	1,589	1,619	1,683	1,706	1,686	1,664	1,735	1,778
at program exchange rates	1,594	1,614	1,645	1,707	1,730	1,706	1,682	1,753	1,794
Broad money multiplier	3.1	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Share of foreign currency deposits in all deposits	45.6	45.4	45.3	45.2	44.9	44.6	44.5	44.2	43.0
Exchange rate (Moldovan lei per U.S. dollar, average)	12.1	11.9	…	…	…	…	…	…	…
Exchange rate (Moldovan lei per U.S. dollar, actual/projected, eop)	12.2	11.9	…	…	…	…	…	…	…
Reserve requirement ratio on deposits (percent) 1/	8	11	11	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 reserev requirements.

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

3/ Calculated at constant program exchange rate.

Table 5. Moldova: Financial Sector Indicators, 2007–11

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

	2007	2008	2009				2010				2011	
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	April
Size												
Number of banks	15	16	16	15	15	15	15	15	15	15	15	15
Total assets of the banking system (billions of Moldovan lei)	32.0	39.1	37.6	36.6	37.8	39.9	39.3	39.7	40.9	42.3	43.5	43.8
Total loans of the banking system (percent of GDP)	38.8	39.4	40.1	37.0	36.5	37.1	30.9	32.6	34.8	35.5	32.3	32.6
Total assets of the banking system (percent of GDP)	59.9	62.2	62.2	60.5	62.5	66.1	54.7	55.2	58.4	58.9	53.0	53.3
Capital adequacy												
Capital adequacy ratio 1/	29.1	32.2	32.8	32.8	31.7	32.3	32.6	31.2	31.2	30.1	29.7	29.4
Liquidity												
Liquid assets (billions of Moldovan lei)	9.3	12.0	11.0	11.5	13.1	15.3	14.3	13.8	13.9	14.4	14.4	14.4
Total deposits (billions of Moldovan lei)	23.1	27.2	25.3	24.2	24.9	24.4	26.3	26.1	27.3	28.7	29.6	29.7
Liquidity ratio 2/	40.3	44.1	43.5	47.6	52.5	62.6	54.5	52.8	50.9	50.3	48.8	48.4
Liquid assets share of total assets	29.1	30.6	29.3	31.5	34.5	38.3	36.5	34.8	34.0	34.2	33.2	32.8
Asset quality												
Gross loans (billions of Moldovan lei)	20.8	24.8	24.2	22.4	22.0	22.4	22.2	23.5	24.4	25.5	26.5	26.8
Provisions to non-performing loans	113.7	94.2	69.9	62.8	53.8	59.2	58.8	59.5	60.1	63.2	71.8	72.1
Nonperforming loans as a share of total loans	3.7	5.2	8.0	10.5	14.6	16.3	17.4	17.5	15.7	13.3	10.7	10.6
Substandard	…	3.6	6.4	8.4	12.2	9.6	10.0	10.0	8.6	8.9	6.3	6.2
Doubtful	…	1.5	1.5	2.0	2.2	6.5	7.4	7.3	5.7	3.9	3.9	3.8
Loss	…	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.3	0.6	0.5	0.5
Loan-loss provisioning/gross loans	4.2	4.9	5.6	6.6	7.9	9.7	10.2	10.4	9.4	8.4	7.7	7.6
Profitability												
Return on equity	24.2	19.9	7.5	2.6	0.9	-2.1	8.9	9.9	6.9	3.0	10.1	9.9
Return on assets	3.9	3.5	1.4	0.5	0.2	-0.4	1.6	1.8	1.2	0.5	1.7	1.7
Interest rates												
Domestic currency average lending rate	18.9	21.0	23.1	18.9	19.0	18.6	17.3	16.5	15.8	14.8	14.6	15.1
Domestic currency average deposit rate	15.7	18.1	19.4	15.0	10.8	9.8	9.1	6.7	7.4	6.5	7.9	7.2
Interest rate spread, domestic currency	3.2	2.9	3.7	3.9	8.3	8.8	8.1	9.8	8.4	8.2	6.7	11.7
Foreign currency average lending rate	10.8	14.6	13.3	13.1	11.9	10.6	10.2	10.5	9.8	9.4	9.1	8.7
Foreign currency average deposit rate	6.5	9.6	10.2	8.2	4.9	3.8	3.4	3.3	3.5	3.3	3.4	3.6
Interest rate spread, foreign currency	4.3	5.0	3.1	4.9	7.0	6.8	6.8	7.2	6.3	6.1	5.7	5.0
182-day T-bill (nominal yield)	16.4	19.2	16.2	13.6	7.4	6.1	8.5	7.5	7.3	7.4	12.1	12.1
Foreign currency assets and liabilities												
Total liabilities (billions of Moldovan lei)	26.5	32.1	30.5	29.8	31.0	33.0	32.2	32.5	33.5	35.0	36.0	36.3
Foreign currency liabilities (billions of Moldovan lei)	12.7	15.4	16.1	16.4	16.1	17.1	16.3	16.0	16.9	17.7	18.2	18.5
Share of foreign currency denominated liabilities in total	48.2	48.0	52.9	55.2	51.8	51.7	50.4	49.2	50.5	50.7	50.6	50.9
Foreign currency denominated assets	11.5	12.9	13.6	13.8	15.4	16.1	15.0	15.1	17.3	17.2	17.7	18.0
Share of foreign currency denominated assets in total	35.9	33.0	36.2	37.8	40.8	40.2	38.3	38.1	42.3	40.8	40.6	41.0
Share of foreign currency deposits in total deposits	43.3	41.1	48.7	50.2	50.0	49.3	47.5	46.2	45.9	45.6	45.4	45.6
Share of foreign currency denominated loans in total loans	43.6	41.2	41.1	43.0	43.6	44.7	43.4	43.0	41.5	42.3	43.8	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, 2009-12

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

	2009	2010	2011	2012
1 Total requirements	**2,560**	**2,817**	**3,499**	**3,797**
Current account deficit (excluding current transfers and compensation of employees)	2,182	2,451	3,015	3,328
Of which: exports of goods	1,332	1,631	2,006	2,259
Imports of goods	-3,276	-3,810	-4,721	-5,261
Debt amortization	377	366	484	470
Public and publicly guaranteed	45	46	66	50
Private	333	320	419	419
2 Identified financing sources	**2,359**	**3,111**	**3,356**	**3,638**
Capital Account	-18	-28	-20	-22
Foreign direct investment (net)	121	191	263	313
Portfolio investment	-5	5	3	6
New borrowing	333	438	617	630
Public	41	50	8	6
Private	292	388	609	623
Other capital flows	18	135	283	274
Current transfers	1,151	1,198	1,369	1,493
Worker's remittances	627	619	750	824
Official transfers	103	137	119	152
Other transfers	421	441	500	516
Compensation of employees	497	663	843	961
Use of Fund credit	-15	175	-6	-16
Errors and omissions	58	71	0	0
Exceptional financing	219	264	4	0
3 Gross international reserve accumulation (+: increase)	**-201**	**294**	**264**	**284**
4 Financing gap	**…**	**…**	**407**	**443**
Millions of SDR	…	…	255	278
Percent of quota	…	…	207	226
5 Prospective financing	**…**	**…**	**407**	**443**
IMF	…	…	157	234
Millions of SDR	…	…	100	150
Percent of quota	…	…	81	121
Other donors	…	…	250	210
European Commission	…	…	125	95
World Bank	…	…	72	61
EIB/EBRD/CEDB	…	…	52	53

Sources: Moldovan authorities; and IMF staff projections.

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	44.8	41.3	35.8	32.3	26.7
Charges and interest	0.9	0.5	0.3	1.0	1.9	1.9	1.8	1.7	1.5	1.3	1.1	0.9	0.7
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	1.2	3.5	4.0	4.0	3.9	3.6	3.2	2.7	2.1	1.5
Total obligations based on existing and prospective credit													
Millions of SDRs	16.9	10.3	5.8	5.2	14.1	18.1	23.3	33.0	59.2	74.0	73.8	69.8	63.6
Millions of U.S. dollars	26.7	15.8	8.9	8.1	22.0	28.3	36.3	51.3	92.1	115.2	114.9	108.7	99.0
Percent of exports of goods and services	1.1	0.8	0.4	0.3	0.7	0.8	0.9	1.1	1.7	2.0	1.8	1.6	1.3
Percent of debt service 2/	32.7	18.1	12.0	8.8	23.0	26.0	32.8	49.1	50.7	48.8	46.7	40.3	33.0
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	1.2	1.3	1.7	2.8	3.2	3.0	2.6	2.2
Percent of quota	13.7	8.3	4.7	4.2	11.4	14.7	18.9	26.8	48.0	60.1	59.9	56.7	51.6
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	483.3	699.6	676.4	645.6	599.6	513.1	402.9	292.1	186.7	90.0
Percent of exports of goods and services	6.9	7.6	14.0	17.0	21.9	18.7	15.5	12.6	9.6	6.9	4.6	2.7	1.2
Percent of debt service 2/	208.9	172.8	439.4	527.0	732.9	621.5	583.5	573.6	282.6	170.7	118.8	69.3	30.0
Percent of GDP	2.8	2.8	5.6	6.9	9.1	8.0	7.0	6.0	4.6	3.4	2.2	1.3	0.6
Percent of gross international reserves	10.2	10.2	18.9	23.8	30.2	27.5	23.6	20.0	15.6	11.3	7.5	4.4	2.0
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	139.1	-14.2	-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	149.6	0.0	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)	2,483.3	2,000.5	2,320.9	2,834.5	3,189.7	3,614.7	4,177.6	4,750.9	5,356.3	5,839.7	6,348.1	6,900.8	7,501.7
Debt service (millions of U.S. dollars) 2/	81.6	87.6	73.8	91.7	95.5	108.8	110.6	104.5	181.6	236.0	246.0	269.5	299.9
Nominal GDP (millions of U.S. dollars) 2/	6,054.8	5,437.7	5,810.4	6,999.4	7,680.4	8,433.0	9,217.0	10,071.6	11,062.6	12,025.7	13,072.7	14,210.9	15,448.2
Gross International Reserves (millions of U.S. dollars)	1,672.4	1,480.3	1,717.7	2,033.3	2,317.1	2,459.1	2,737.1	3,002.1	3,291.8	3,578.4	3,890.0	4,228.7	4,596.8
Average exchange rate: SDR per U.S. dollars	0.6	0.6	0.7	…	…	…	…	…	…	…	…	…	…
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/ Assumes prospective disbursements of SDR 60.0 million (of which, SDR 15.0 million for budget support) in 2011 and SDR 44.8 million in 2012 under the ECF, and purchases of SDR 40.0 million in 2011 and SDR 104.8 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: Localized Millennium Development Goals

									Targets	
	2002	2003	2004	2005	2006	2007	2008	2009	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	29.0	23.0
▪ Proportion of people under the absolute poverty line 1/	40.4	29.0	26.5	29.1	30.2	25.8	26.4	26.3	25.0	20.0
▪ Proportion of people under the extreme poverty line 1/	26.2	15.0	14.7	16.1	4.5	2.8	3.2	2.1	4.0	3.5
Goal. Achieve universal access to general secondary education										
▪ Gross enrollment ratio in general secondary education (percent)	95.1	95.1	94.6	94.4	92.0	91.6	90.9	90.7	95.0	98.0
▪ Literacy rate for the 15-24 year-old population 1/	…	…	…	…	99.6	99.6	99.6	99.6	99.5	99.5
▪ Enrollment rate for pre-school programs for 3-6 year-old children	57.0	61.1	66.1	70.7	70.1	72.6	74.4	75.5	75.0	78.0
▪ Enrollment rate for pre-school programs for 6-7 year-old children	66.5	78.8	69.1	75.6	81.7	…	…	…	95.0	98.0
Goal: Reduce child mortality										
▪ Infant mortality rate (per 1,000 live births) 1/	14.7	14.4	12.2	12.4	11.8	11.3	12.2	12.1	16.3	13.2
▪ Under-five mortality rate (per 1,000) 1/	18.2	17.8	15.3	15.6	14.0	14.0	14.4	14.3	18.6	15.3
▪ Immunization, measles (percent of children under 2 years old)	94.3	95.7	96.3	96.9	96.9	94.7	94.4	…	96.0	96.0
Goal: Improve maternal health protection										
▪ Maternal mortality ratio (per 100,000 births)	28.0	21.9	23.5	18.6	16.0	15.8	…	17.2	15.5	13.3
▪ Births attended by skilled health personnel (percent)	99.1	99.4	99.4	99.5	99.6	99.5	99.5	99.8	99.0	99.0
Goal: Combat HIV/AIDS, tuberculosis and other diseases										
▪ HIV/AIDS incidence (per 100,000 people) 2/	4.7	6.2	8.4	12.5	14.7	17.4	19.4	17.1	9.6	8.0
▪ HIV incidence among 15-24 year-olds 2/	9.0	9.8	13.4	20.1	18.8	21.2	16.1	19.6	11.2	11.0
▪ Mortality rate associated with tuberculosis (deaths per 100,000 people) 2/	17.3	16.9	17.1	19.1	19.3	20.2	17.1	18.0	15.0	10.0
Goal: Ensure environmental sustainability										
▪ Proportion of land areas covered by forest (percent)	10.3	10.5	10.6	10.7	10.7	10.7	10.9	10.9	12.1	13.2
▪ Ratio of area protected to maintain biological diversity (percent)	2.0	2.0	2.0	2.0	4.7	4.7	4.8	4.8	4.7	4.7
▪ Share of population with access to improved water sources (percent)	38.5	39.7	44.5	45.0	46.0	47.0	53.0	55.0	59.0	65.0
▪ The share of population with access to sewage	31.3	31.7	32.8	43.8	43.3	43.9	45.7	47.9	50.3	65.0

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

1/ The methodology was changed from 2006.
2/ Including data from Transnistria.

ATTACHMENT I. MOLDOVA: LETTER OF INTENT

Chişinău, June 27, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431 USA

Dear Mr. Lipsky:

The economic recovery continues to gain strength, bolstered by our IMF-supported stabilization and reform program. Having recovered to its pre-crisis level, real GDP is expected to continue expanding at a healthy rate. Exports are rising much faster than expected, the fiscal adjustment set in the adopted 2011 budget remains on track, and inflation has declined to mid-single digits. Confidence in the financial sector continues to grow, reflected in narrowing interest spreads and acceleration of credit growth. However, unemployment has yet to decline.

The program is on track. All end-March quantitative performance criteria and applicable structural benchmarks were met. Two end-March indicative targets—the ceilings on accumulation of domestic expenditure arrears and on reserve money—were missed, largely due to delayed payment of heating bills by the Chisinau municipality and stronger than expected money demand associated with buoyant economic activity. We will put in place corrective measures to rectify the slippages, and will continue to decisively implement other reforms set forth in our IMF-supported program.

In consideration of our strong record of program implementation, we request the completion of the third reviews of the program supported by the Extended Credit Facility and the Extended Fund Facility arrangements and the associated disbursement of SDR 50 million. The fourth program review, assessing performance based on end-September 2011 performance criteria and relevant structural benchmarks, is envisaged for December 2011.

Going forward, our reforms will continue to focus on improving the well-being of the population and reducing poverty by maintaining macroeconomic stability and re-orienting Moldova's economy toward sustainable export-led growth. In this context, key challenges include the need to move ahead with difficult structural reforms notwithstanding political uncertainties; to reduce the still excessive structural fiscal deficit; to contain the emerging inflation pressures stemming from rising international energy prices and strengthening domestic demand; and to resist the widening of the external imbalances fueled by strong foreign exchange inflows.

We believe that the policies set forth in the attached Supplementary Memorandum of Economic and Financial Policies (SMEFP) are adequate to achieve these 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

/s/
Dorin Drăguţanu
Governor
National Bank of Moldova

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

ATTACHMENT II. MOLDOVA: SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

June 27, 2011

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, and March 24, 2011. 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 continues its vigorous recovery.** After reaching 6.9 percent last year, real GDP growth rose further to 8.4 percent in Q1 of 2011. The expansion appears broad-based with key indicators—exports, bank credit, and industrial production—posting strong gains. Improved external environment and brisk expansion of domestic demand, as well as the early fruits of our reform efforts—macroeconomic stability, economic liberalization, and gradual opening of the EU markets—have been driving these positive developments. We expect the economic growth to settle at 5 percent in 2011-12 as the expansion matures.

3. **After some decline, inflation may face pressures from the recent spikes in international energy prices and accelerating domestic demand.** Inflation declined to 5¾ percent in March as wage growth remained moderate and increased remittances and other foreign inflows led to some appreciation of the leu against the U.S. dollar. However, the recent surge in international energy prices, combined with strengthening credit growth, may temporarily push inflation up in the remainder of the year. Barring further shocks, we expect inflation to reach 8 percent by end-2011 before declining to 5¾ percent in 2012.

4. **Continuing expenditure restraint allowed us to meet the first quarter fiscal deficit target comfortably.** Our reform efforts and delays in externally-financed investment projects contained expenditure growth to 3 percent relative to a year ago. Revenue increased by over 9½ percent relative to last year—a pace still somewhat slower than projected nominal GDP growth—mainly owing to underperformance in VAT collection.

5. **At the same time, the current account deficit is widening owing to a combination of external shocks and expanding domestic demand.** Rising international energy prices, combined with brisk growth of demand for consumer and investment goods—in turn fueled by higher remittances, bank credit, and other foreign inflows—are expected to widen the current account deficit from 10¼ percent of GDP in 2010 to 11¼ percent of GDP in 2011. The substantial export growth so far in 2011—over 60 percent relative to last year—has been insufficient to offset the effect of the less buoyant import growth from a larger base. The elevated deficit in 2011 will be largely financed by

official assistance, private capital flows, and FDI. We expect that our sustained reform and export promotion efforts, as well as tailwinds from economic recovery in trading partners and increased access to EU markets, will help narrow the current account deficit to 8 percent of GDP in the medium term.

6. **Having successfully pulled through the difficult times, the financial sector is steadily expanding.** Banks continued to mend their balance sheets by writing off bad loans, thereby reducing the non-performing loans (NPL) ratio from 13.3 percent at end-2010 to 10.6 percent in April 2011. Despite the recent monetary policy tightening, domestic bank credit has been growing quickly, with the fastest expansion observed in the industrial and trade sectors. Meanwhile, loan-deposit interest rate spreads have narrowed, and banks' liquidity and capital buffers remain well above the statutory requirements.

II. Mid-term Review of the Program

7. **Mid-way through our IMF-supported program, we have overcome the economic crisis and laid the groundwork for robust growth and macroeconomic stability.** Helped by the credible stabilization program, significant liberalization efforts, and improved external environment, output quickly rebounded and reached its pre-crisis level already in 2010. Inflation declined to mid-single digits, the National Bank of Moldova (NBM) rebuilt its international reserves, and a strong fiscal consolidation effort reduced the budget deficit by over 3¾ percent of GDP last year; nevertheless, funds for social assistance increased considerably. In the energy sector, the autonomous regulatory agency (ANRE) brought heating tariffs broadly in line with costs. In the financial sector, new bank resolution and contingency planning frameworks have made the country more resilient to financial sector risks. Alongside, recent regulatory changes aimed at liberalization of trade, simplification of business regulations, and export promotion have been helping the business environment and supporting growth.

8. **Nevertheless, our reform agenda remains unfinished and will require sustained efforts in the period ahead.** As a matter of first priority, we will focus on maintaining macroeconomic stability and continuing on the path of fiscal adjustment. Alongside, we will reform tax policy and tax administration to make them more business-friendly; revamp the debt restructuring framework in the financial sector; implement the critical and long-overdue education and civil service reforms; put an end to current arrears in the energy sector and commence its long-term restructuring; and begin a gradual phasing out of the category-based social assistance scheme in favor of the means-tested one (*Sistemul de ajutor social*) that targets the most vulnerable. To promote investment and exports, we will put a greater emphasis on the scale and quality of public investment, continue to simplify regulations and reduce "red tape", and persist in gaining greater access to the EU and other markets for our exporters.

III. Revised Policy Framework for 2011-12

A. Fiscal Policy

9. **In 2011, we will adhere to the adopted budget and move expeditiously to eliminate domestic expenditure arrears.** Specifically, we remain committed to the budget deficit target of 1.9 percent of GDP and implementation of other policies included in the 2011 budget law (¶¶8-9 of the SMEFP dated March 24, 2011). The recent accumulation of domestic expenditure arrears (MDL 79 million) was primarily caused by under-payment of heating bills by the Chisinau municipality. The municipality has committed to a schedule of payments to eliminate both these and older heating-related arrears by October 1, and will seek to find a durable solution to the problem of current payments in the heating sector in cooperation with other partners (¶¶21-22). The central government will work with the Chisinau municipality to ensure implementation of the agreed schedule, and will reduce its own arrears as needed to meet the program targets for arrear clearance.

10. **The medium-term budget framework (MTBF) will reflect our commitment to stay on the course of fiscal adjustment.** By end-June 2011 we will adopt an MTBF consistent with the goal of reducing the fiscal deficit to ¾ percent of GDP in 2012-14. The wage bill and spending on goods and services will be capped at 9½ and 8¾ percent of GDP respectively, while capital expenditure will keep rising in line with strengthened implementation capacity and targeted social assistance will expand to protect the most vulnerable. This adjustment strategy will reduce our dependency on exceptional foreign aid, make public finances more sustainable, and promote our broader development goals.

11. **A new fiscal responsibility framework and improved mechanism for allocating capital expenditure will support the MTBF.** A new draft law on public finance and accountability, to be submitted to Parliament by end-September 2011, will introduce a rule-based fiscal framework, enhance fiscal discipline, and improve transparency. Meanwhile, to address the long-standing concern over ineffective allocation of capital expenditure, we will review the list of existing and envisaged capital projects, with a view to prioritize execution on the basis of their viability, economic growth potential, past execution rates, and capacity for implementation. And by end-December 2011, the Ministry of Finance together with line ministries will develop proposals to reform the mechanism for allocating capital expenditure.

12. **A comprehensive tax policy reform—a major part of the MTBF—will promote investment and reduce economic distortions while securing adequate resources in support of our fiscal strategy.** The reform will initiate a break from a system riddled with incentives and exemptions toward a tax regime that is competitive, simple, transparent, and equitable. Drawing on the work of the recent IMF technical assistance mission, together with the 2012 budget we will adopt a package of the following tax policy reforms:

- To encourage increased investment, from January 1, 2012, we will extend the option to receive **value-added tax** (VAT) cash refunds for new purchases of investment goods (excluding buildings and cars) to the entire country (**structural benchmark**). This would lead to an estimated annual revenue loss of 0.9 percent of GDP, which will be partially offset by making sugar subject to the standard VAT rate of 20 percent.[1]

- **Corporate income tax** (CIT) will be re-introduced with a single rate of 12 percent (**structural benchmark**)—below regional averages—which will raise revenue by 1.1 percent of GDP. In 2012, advance payment of the CIT will be based solely on expected profit. At the same time, incentives to increase investment will be augmented by raising the amortization rate of group 3 assets (machines and equipment) from 10 to 12½ percent, and doubling to MDL 6,000 the threshold for assets eligible for immediate write-off. We will also revise the revenue sharing mechanism between the central and local authorities to ensure that a sufficient share of revenue remains with the central government to offset the loss from the VAT reform. Furthermore, we will level the playing field in the economy by removing all tax facilities except those explicitly grandfathered in the law—including in the existing free economic zones (FEZ) and ports—and refraining from creating new FEZs and other tax expenditure facilities.

- We will seek a gradual alignment of **excise** rates with EU requirements so as to reduce risks of circumvention and increase revenue by about 0.3 percent of GDP in 2012 and similar amounts in the following years. We will continue discussions with the European Commission on the long-term schedule for the harmonization of excises.

- As regards the **personal income tax** (PIT), we plan to index the personal exemption to inflation while maintaining the existing tax rates. Meanwhile, various PIT exemptions will be discontinued and patent holders (lawyers, notaries, mediators, and bailiffs), which are treated as different organizational units, will be required to file taxes as individuals subject to PIT. Going forward, we will consider a PIT reform with a view to increase the personal exemption and the tax rates so as to maintain PIT revenue as a share of GDP at no less than 2¼ percent while reducing the tax burden on low-income taxpayers.

- A simple single-rate **presumptive tax** will replace the cumbersome small business taxation system. The rate will be set at 4 percent on turnover—determined either directly or indirectly—for businesses above the cutoff level for micro-enterprises and below the mandatory VAT registration threshold.

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[1] All estimates of the effects of tax policy changes are relative to a scenario with unchanged policies.

- The reform will seek to streamline and improve collection of **real estate, road, and local taxes**. Specifically, we will seek to better align property valuations with actual transaction prices, and improve recording of real estate transactions in the cadastre. Road taxes will be differentiated by vehicle size to better reflect the anticipated road damage. And local taxes will be simplified and consolidated to reduce the number of nuisance taxes and improve administration.

- Alongside, to improve fairness of the social security system, **contributions** by patent holders, citizens living abroad, and taxpayers paying the presumptive tax will be gradually brought in line with the benefits they are entitled to under the law.

- We will also review our system of **penalties** for tax violations, with a view to make the penalty size reflect, among other factors, the cost to the budget created by the violation and to provide incentives for taxpayers to find and correct mistakes themselves. Moreover, we will introduce administratively binding **advance rulings** by the tax administration at the request of taxpayers.

13. **Speedy rollout of the tax administration reform will be critical to meet the objectives of MTBF and ensure a business-friendly tax climate.** We will intensify our outreach to mobilize external partners' support for the IT reform—a crucial component of the tax administration strategy in the medium term. Meanwhile, the State Tax Service (STS) will begin to implement operational plans in various reform areas, including audit, collection of arrears, and taxpayer service activities. As already planned (¶11 of the SMEFP dated March 24, 2011), we will submit to Parliament legislation to allow indirect assessment of individuals' income as specified in the compliance strategy by September 30, 2011, and prepare operational plans to strengthen their tax compliance by December 31, 2011.

14. **Other structural reforms agreed under the program will continue to support our fiscal strategy while improving the quality of public services.** Key measures in the pipeline include phasing in the procurement reform, as well as measures to rationalize the use of health care (¶11 of the SMEFP dated March 24, 2011).

B. Monetary and Exchange Rate Policies

15. **The recent spike in international energy prices and strengthening domestic demand, driven in part by bank credit, call for a monetary policy response.** Despite appreciation of the leu and the currently tame core inflation, the recent revision of electricity tariffs and the expected hike in other energy prices later in the year threaten to pass through to core inflation and unhinge inflation expectations. Moreover, remaining high excess liquidity despite the tightening in early 2011 is feeding already robust credit growth, putting further pressure on core inflation. Taken together, these developments could put the NBM's end-2012 inflation objective at risk in the absence of policy action. In response, the NBM will raise the required reserve ratio by three percentage points to

14 percent before September and, if necessary, continue its gradual monetary tightening going forward, to limit scope for marked acceleration of domestic credit and anchor expectations.

16. **Facing abundant foreign exchange inflows, the NBM will continue its gradual accumulation of foreign exchange reserves.** Preliminary indicators point to stronger than expected remittances and capital inflows since end-2010, evident in the ample supply on the foreign exchange market, strengthening of the leu, and accumulation of excess liquidity in the banking system. Thus, some sterilized intervention appears appropriate to ensure adequate buffers against the still high external vulnerabilities.

C. Financial Sector Policy

17. **We are finalizing the mechanism to resolve the difficulties in Banca de Economii (BEM) stemming from crisis management measures in 2009.** The NBM's loan to BEM that facilitated paying out all individual depositors of the failed Investprivatbank (IPB) has been extended till end-2015 to mitigate the BEM's liquidity situation. To strengthen BEM's balance sheet, by end-September 2011 the Government will replace the advance to IPB (currently a BEM asset) with a government bond whose amortization schedule will match BEM's loan repayment to NBM. Going forward, we expect that the impact on public finances will be broadly offset by proceeds from the sale of IPB assets and a burden-sharing arrangement with banks. We will make every effort to ensure that this burden-sharing arrangement is based on an equitable loss-sharing formula, bearing in mind the benefits the banks derived from the authorities' chosen mode of IPB resolution back in 2009, which guaranteed financial stability amid an economic and political crisis.

18. **The working group chaired by the Ministry of Economy will intensify implementation of the delayed measures to strengthen the debt restructuring framework.** By end-June 2011, we will submit for government approval draft legal amendments described in the SMEFP dated June 30, 2010 (¶15) and the SMEFP dated March 24, 2011 (¶18) to enhance the speed and predictability of collateral execution by banks and to strengthen incentives for banks to restructure nonperforming loans. By end-September 2011, we will ensure parliamentary passage of these legal amendments **(structural benchmark)**. Furthermore, with technical assistance from the World Bank and in consultation with the IMF staff, we will seek to strengthen and simplify other aspects of the insolvency framework. Specific draft legal amendments in this area will be adopted by the Government by March 2012. We will move ahead with other plans to strengthen the financial sector (¶¶16-18 of the SMEFP dated March 24, 2011).

D. Structural Reforms

19. **Having mapped out the contours of the education reform, we are working to ensure its successful and timely implementation** (SMEFP dated March 24, 2011, ¶19). An action plan to implement the reform has been developed and will be approved by the Government by end-

June 2011. As agreed with WB staff, the plan will detail numeric targets for class and school optimization with their estimated budget impact.

- We have already imposed a freeze on hiring non-teaching personnel and established a wage bill ceiling that ensures an average of 5 percent reduction in the education sector's employment. Moreover, as previously agreed, by end-June we will issue a government decision to cut funding for over 8,000 positions, including 2,400 vacancies.

- Legal amendments to eliminate the existing class size norms and improve flexibility of labor relations in the sector are being finalized and will be adopted by Parliament by end-July. Furthermore, we are finalizing a new Education Code, which will fully reflect the spirit and goals of the reform. As per our agreement with WB and IMF staff, the Code will refrain from making explicit budget commitments, leaving this task to the MTBF and other budget-related acts.

- As regards school network optimization, we have identified 142 hub schools which will absorb students from 248 redundant schools. To ensure continued access to education, these measures will be facilitated by our plan to purchase 77 and rent 62 school buses before September 2011.

- The Ministry of Education, with assistance from the World Bank, is on track to finalize per student financing formulae for 9 additional rayons, as well as Chişinău and Bălți, and to introduce them starting January 1, 2012.

20. **The civil service reform will enter a new phase in October 2011.** Key components of the reform include new job functions and responsibilities for staff in public administration along with a merit- and performance-based wage system for civil servants. We will make certain that the reform does not affect the cap on public sector wage bill's ratio to GDP set in the MTBF.

21. **We are on track to put in place a durable framework for payment of current bills and draw up a broader restructuring strategy in the energy sector by end-September 2011.** To this end, the Ministry of Economy, the Chişinău municipality, and the key participants in the energy sector have agreed on a schedule of payments to eliminate all post-2008 arrears before the next heating season. Starting October 2011, a new Memorandum of Understanding (MoU) will install a similar framework on a permanent basis. The framework will include: (i) a monthly schedule of payments to energy suppliers that is consistent with typical collection lags during cold months and full repayment before the following heating season; (ii) a credible commitment by Termocom to adhere to the agreed payment schedule; and (iii) creditors' commitment to abstain from blocking bank accounts as long as the MoU is observed. Alongside, we will continue to work with the World Bank to finalize a comprehensive energy sector restructuring strategy, also involving options to resolve historic debt.

22. **To support sustainability of these reforms, we will further enhance the heating sector's ability to maintain cost recovery.** As a **structural benchmark**, by end-September 2011, the Government will adopt regulations which would:

- Raise the heating fee for apartments disconnected from central heating from 5 percent to 20 percent of the average building heating bill. This increase is in line with regional practices and would mostly affect consumers with relatively high incomes.

- Introduce a minimum payment of 40 percent of the monthly heating bill and set August 1 as a legal deadline for settling all heating bills for the past heating season**.**

By end-August 2011, the Ministry of Regional Development and Construction, the Chişinău municipality, Termocom, and the water distributor Apă Canal will develop a framework to reconcile common and individual water meters in Chişinău. This would help to end persistent losses caused by under-billing for hot and cold water delivery. Similar solutions will be implemented in other affected municipalities.

23. **Initiatives to resume privatization of public companies are underway.** Until end-June, we expect to finalize our agreement with the IFC to put in place an advisor to review options for private sector participation in Moldtelecom. At the same time, the government has expanded the list of state assets subject to privatization to include other large public companies, which we will put up for sale through tenders. The government is in discussions with international financial institutions to explore options to divest Air Moldova as soon as possible. Also, the Ministry of Economy has initiated contacts with international partners so as to develop by end-September 2011 a roadmap for the privatization of Banca de Economii.

24. **Going forward, we will persevere with our trade liberalization efforts.** The wheat export ban has been abolished and we do not plan to introduce any new tariff or non-tariff barriers to exports. Furthermore, drawing on the Ministry of Economy's assessment of existing tariff and non-tariff barriers, by end-September 2011 we will formulate a roadmap and specific proposals for further trade liberalization measures.

25. **We will also continue reforms to cut red tape, safeguard competitiveness, and stimulate exports.** The work on a detailed strategy to assist local producers striving to comply with the EU veterinary and food safety standards has begun, and the Government will adopt it by end-September 2011. Legal amendments to relax the requirement for repatriation of export proceeds by extending the repatriation period and reducing penalties for noncompliance have also been developed, and will be submitted to Parliament before end-June. The draft legislation to delink the wages in economy from the minimum guaranteed wage will be adopted by end-July 2011. In parallel, we will continue to review and streamline business regulations and permit requirements, and to work on reducing the number of inspections and audits so as to reduce the burden on business. To this end, we will adopt a law on state inspection of entrepreneurial activities by the end of 2011.

26. **Improving targeting of social assistance will remain a high priority.** Improved capacity of social services and continuous awareness campaigns will allow us to meet the target of expanding enrollment in the means-tested social assistance scheme (*Sistemul de ajutor social*) to 50 percent in 2011 and 65 percent in 2012. Alongside, in collaboration with the World Bank, we have developed the first draft of a plan to phase out by end-2012 the entire nominative compensation system, except the assistance currently provided to Chernobyl victims and war veterans. After finalizing the plan, we will draft the necessary legislative amendments and submit them to Parliament by end-September 2011. Also by end-September 2011, we will conduct a comprehensive review of all other non-means tested social payments and develop reform proposals with a view to start implementation in 2012.

E. Program Monitoring

27. **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 ¶27 of the MEFP of January 14, 2010, except that the target on reserve money has been discontinued after March 31, 2011. We are requesting modifications of the performance criteria and indicative targets for the NBM's NIR and NDA for September 30, 2011, December 31, 2011, and March 31, 2012. Moreover, we are proposing new indicative targets for June 30, 2012 (Table 2). The existing and proposed structural benchmarks are outlined in Table 3. The understandings regarding the quantitative performance criteria described in this memorandum are specified in the attached TMU. An additional adjuster on the ceiling on the overall cash deficit of the general government is proposed to include budget support grants other than EC's macro-financial assistance, up to an additional MDL 250 million per year (TMU ¶24).

28. **To guide the long-term development of Moldova, we have begun work on elaborating a new national development strategy.** The new strategy will outline the national economic and social priorities based on the Millennium Development Goals. Parliamentary adoption of the new strategy is envisaged by November 2011, following consultations with civil society and our external partners.

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%
June 30, 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%
December 31, 2011	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, December 2010–June 2012 1/

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

	2010		2011							2012		
	Dec. 31		March 31		June 30	Sept. 30		Dec. 31		March 31		June 30
	Indicative targets		Performance criteria		Indicative targets	Performance criteria		Indicative targets		Performance criteria		Indicative targets
	Program	Adjusted program	Program	Adjusted program	Program	Program	Revised	Program	Revised	Program	Revised	Program
1. Quantitative performance criteria												
Ceiling on the overall cash deficit of the general government 2/	3,596	3,491	685	610	994	1,119		1,596		218		470
Actual		1,786		519								
Ceiling on net domestic assets of the NBM (stock) 2/ 3/	-6,224	-5,609	-5,594	-5,052	-7,003	-6,996	-6,509	-6,894	-6,500	-6,831	-6,190	-5,754
Actual		-7,049		-7,090								
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) 2/ 3/	1,464	1,414	1,430	1,423	1,603	1,650	1,707	1,711	1,730	1,678	1,706	1,682
Actual		1,594		1,614								
Ceiling on contracting or guaranteeing of non-concessional external debt of the general government (millions of U.S. dollars) 3/	125		50		80	80		80		80		80
Actual	15											
2. Continuous performance criteria												
Ceiling on accumulation of external payment arrears (millions of U.S. dollars) 2/	0		0		0	0		0		0		0
Actual	0		0									
3. Indicative targets												
Ceiling on reserve money (stock) 3/	11,780		11,990	12,448	…	…		…		…		…
Actual	12,551			12,727								
Ceiling on change in domestic expenditure arrears of the general government	-107		0		-25	-50		-50		0		-24
Actual	-187		79									
Ceiling on the general government wage bill	7,550		1,830		4,064	5,807		7,844		2,028		4,538
Actual	7,317		1,767									
Floor on priority social spending of the general government 4/	9,634		2,369		4,933	7,391		10,457		2,590		5,179
Actual	9,717		2,403									
Memorandum items:												
EC Macro Financial Assistance budgetary grants (millions of euros)	50		0		20	20		50		0		0
Actual	40											
Budget support grants	…		…		…	851	797	1,573	1,488	228	236	236
Actual												
Official external budget support and project grants and loans from the European Commission and the World Bank (millions of U.S. dollars)	232		20		88	149	126	221	201	29	30	40
Actual	180		13									
Foreign-financed project loans	1,070		299		834	1,243	1,117	1,408	1,331	311	165	350
Actual	619		132									
Reserve requirement ratio	8		8		11	11	14	11	14	11	14	14
Actual	8		11		11							

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

1/ 'Program' columns up to March 2011 refer to targets in effect during the second 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 third 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.

Table 3. Moldova: Structural Benchmarks

Measure	Due	Status	Objective
Fiscal consolidation and governance			
Parliamentary passage of legislation to phase out early retirement privileges of civil servants, judges, and prosecutors (¶11). 1/	30-Apr-11	Done	Improve financial sustainability of the social insurance system and allow higher pension replacement rates over time (delayed benchmark for end-2010).
Parliamentary passage of legislation to redistribute the burden of sick-leave benefits between employees, employers, and the Social Fund (¶11). 1/	30-Apr-11	Done	Eliminate abuse of the system and improve employers' incentives to monitor absenteeism (delayed benchmark for end-2010).
The State Tax Service will develop operational plans for the implementation of the tax compliance strategy in 2011 (¶11). 1/	30-Apr-11	Done	Raise tax collection, reduce the administrative burden on compliant taxpayers, and improve taxpayer services.
Re-introduce corporate income tax (CIT) with a single rate of 12 percent (¶12). 2/	31-Dec-11	Proposed benchmark	Increase tax revenue.
Financial stability			
Parliamentary passage of legal amendments to facilitate debt restructuring and speed up execution of collateral on bank loans (¶18). 1/	30-Sep-11		Clean bank balance sheets and reduce structural impediments to bank lending.
Supporting growth and mitigating fiscal risks			
Adoption of legal and regulatory amendments to introduce a minimum payment of 40 percent of the monthly heating bill and set August 1 as a legal deadline for settling all heating bills for the past heating season, as well as raise the heating fee for apartments disconnected from central heating from 5 percent to 20 percent of the average building heating bill (¶22). 2/	30-Sep-11	Proposed benchmark	Ensure financial soundness of the heating companies and current payments for imported natural gas.
Extend the option to receive value-added tax (VAT) cash refunds for new purchases of investment goods (excluding buildings and cars) to the entire country (¶12). 2/	31-Dec-11	Proposed benchmark	Promote new investment and establish equitable taxation regime for all companies.

1/ Paragraph numbers refer to the corresponding paragraphs of the SMEFP dated March 24, 2011.

2/ Paragraph numbers refer to the corresponding paragraphs of the SMEFP dated June 27, 2011.

ATTACHMENT III. MOLDOVA: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative targets (prior actions, performance criteria and indicative benchmarks) 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.

A. Quantitative Program Targets

2. The program will be assessed through performance criteria and indicative targets. Performance criteria are set with respect to:

- the ceiling on the overall cash deficit of the general government;
- the ceiling on the net domestic assets (NDA) of the National Bank of Moldova (NBM);
- the floor on the net international reserves (NIR) of NBM;
- the ceiling on contracting or guaranteeing of nonconcessional external debt of the general government;
- the ceiling on accumulation of external payment arrears of the central government (continuous).

Indicative targets are set on:

- the ceiling on reserve money (applicable up to the test date of March 31, 2011 and discontinued thereafter);
- the ceiling on change in domestic expenditure arrears of the general government;
- the ceiling on the general government wage bill;
- the floor on priority social spending of the general government.

B. Program Assumptions

3. For program monitoring purposes, U.S. dollar denominated components of the NBM balance sheet will be valued at program exchange rates. The program exchange rate of the Moldovan leu (MDL) to the U.S. dollar has been set at 12.3000 MDL/US$. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the cross rates as of end-September 2009 published on the IMF web site

http://www.imf.org, including US$/EUR = 1.4643, JPY/US$ = 89.7700, CHF/US$ = 1.0290, US$/GBP = 1.6113, CNY/US$ = 6.8290, SDR/US$ = 0.631164.

C. Institutional Definitions

4. The **general government** is defined as comprising the central government and local governments. The **central government** includes the state budget (including special funds and special means, as well as foreign-financed projects), state social insurance budget, and health insurance budget. The **local governments** include special funds and special means, as well as foreign-financed projects. No new special or extrabudgetary funds will be created during the program period. Excluded from this definition are any government-owned entities with a separate legal status.

D. Program Definitions

5. **Net international reserves (NIR) 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 by the NBM, and convertible currency liabilities of the NBM to nonresidents with an original maturity of up to and including one year. Liabilities arising from use of Fund credit by the NBM do not include liabilities arising from the use of SDR allocation and use of Fund credit by the general government. Excluded from reserve liabilities are liabilities with original maturities longer than one year.

6. **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. For the purpose of assessing compliance with the program targets, the value of reserve money will be calculated as arithmetic average of its values for the last 5 working days before and including the program test date.

7. **Net foreign assets (NFA) of the NBM** are defined as gross reserves in convertible currencies (defined in paragraph 5) 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.

8. **Net domestic assets (NDA) of the NBM** is defined as the difference between reserve money (defined in paragraph 6) and net foreign assets (NFA) of the NBM. For the purpose of assessing compliance with the program targets, the value of NDA will be calculated as arithmetic average of its values for the last 5 working days before and including the program test date.

1. For the purposes of calculating overall cash deficit of the general government, **net credit of the banking system** to the 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 projects).[1] The Ministry of Finance will provide data on the holdings of government securities and foreign-financed projects.

9. The **ceilings on the overall cash deficit of the general government** are cumulative from the beginning of calendar year and will be monitored **from the financing side** as the sum of net credit of the banking system to the general government, 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.

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[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 3.

10. **Government securities** in the form of coupon-bearing instruments sold at face value will be treated as financing items in the fiscal accounts, in the amount actually received from buyers. On redemption date, the sales value (face value) will be recorded as amortization, and the coupon payments will be recorded as domestic interest payments.

11. **External debt ceilings** apply to the contracting or guaranteeing by the general government or any other agency acting on behalf of the general government of (i) short-term 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. Debt denominated in currencies other than the U.S. dollar shall be converted to the U.S. dollars using program assumptions on bilateral exchange rates. The debt ceilings will not apply (i) to loans classified as international reserve liabilities of the NBM, (ii) to changes in indebtedness resulting from refinancing credits and rescheduling operations of existing debt, (iii) to credits from international financial institutions (IFIs), including credits extended by the Fund.

12. For program purposes, the definition of **debt** is set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274, adopted on August 24, 2000 and revised on August 31, 2009).[3] This definition applies also to commitments contracted or guaranteed for which value has not been received, and to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. Excluded from this definition are normal import-related credits, defined as liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion are self-liquidating; they contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities.

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

[3] 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.

(involving payments in cash or in kind), or from any implicit legal or contractual obligation to finance partially or in full any shortfall incurred by the debtor.

14. **Concessionality** will be calculated using currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs) and taking into account all details of the loan agreement, inlcuding maturity, grace period, payment schedule, upfront commision, and management fees. 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. Grant element of the loan can be calculated using the concessionality calculator available at the IMF web site http://www.imf.org .[4] For program purposes, a debt is **concessional** if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the CIRRs published by the OECD.

15. 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 central government, or the NBM, or any agency acting on behalf of the central government. 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.

16. For the purposes of the program, general government **expenditure arrears** are defined as non-disputed (in or out of court) payment obligations that are due but not paid for more than 30 days. They can arise on any expenditure item, including transfers, debt service, wages, pensions, energy payments and goods and services. Arrears between the state, local government, and social and health insurance budgets, are not counted towards the expenditure arrears' ceiling on the general government.

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[4] Currently available at http://www.imf.org/external/np/pdr/conc/calculator/default.aspx.

17. The **general government wage bill** will be defined as sum of budget spending on wages and salaries of public sector employees. This will include current spending reported in line “Wages” of the general government budget according to the program classification of the annual budget except for salaries of the social and health funds’ employees.[5]

18. The priority **social spending of the general government** is defined as the sum of essential recurrent expenditures for social assistance, unemployment insurance, and pension payments by the Social Insurance Fund as well as 95 percent of health expenditures.

E. Adjusters

19. The adjusters set in this TMU apply for assessing compliance with the program’s quantitative targets starting from end-March 2010.

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

21. The **ceiling on the overall cash deficit** of the general government will be adjusted upward—that is, the deficit target will be increased—by the net value of government securities that are recorded as budget expenditure in the context of resolving the failed Investprivatbank.

22. The **ceiling on the overall cash deficit** of the general government will be adjusted upward (downward)—that is, the deficit target will be increased (reduced)—by the full amount of any shortfall (excess) between actually disbursed and programmed Macro Financial Assistance budgetary grants from the European Commission (EC), valued at the exchange rates at the program test dates.

23. From end-September 2011, the **ceiling on the overall cash deficit** of the general government will be adjusted upward (downward)—that is, the deficit target will be increased (reduced)—by the amount of any shortfall (excess) between the total amount of actually disbursed and programmed budget support grants excluding Macro Financial Assistance budgetary grants from the European Commission (EC). The upward adjustment

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

is capped at the equivalent of MDL 250 million, valued at the exchange rates at the time of disbursement.

24. The **ceiling on the overall cash deficit** will be adjusted downward (upward)—that is, the deficit target will be reduced (increased)—for any lower (higher) than programmed disbursement of foreign-financed project loans as specified in Table 2 of the MEFP. Owing to monitoring lags, the downward adjustment is capped at a quarter of the programmed amount of foreign-financed project loans. The upward adjustment is capped at the equivalent of US$25 million, valued at program exchange rates.

25. The ceiling on **reserve money** will be adjusted downward (upward) and the ceiling on **NDA of NBM** will be adjusted downward (upward) symmetrically for any reduction (increase) in the required reserve ratio on the deposits of commercial banks denominated in lei. The adjustment amount will be calculated by multiplying the change in the required reserve ratio by the amount of commercial banks' deposits and liabilities in lei subject to reserve requirements.

26. The floor on **NIR of the NBM** will be lowered and the ceiling on **NDA of NBM** will be raised symmetrically by any shortfall in the official external grants and loans from the EC and World Bank capped up to an equivalent of US$50 million. For the purpose of this definition, the program exchange rates will apply for calculating the amounts of the grants and loans.

F. Reporting Requirements

27. Macroeconomic data necessary for assessing compliance with performance criteria and indicative targets and benchmarks will be provided to Fund staff including, but not limited to data as specified in Table 1. The authorities will transmit promptly to Fund staff any data revisions.

Table 1. 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
Number of budgetary sector positions by ministry	Monthly, within three weeks of the end of each month
Number of employees in the budgetary sector by ministry, and their respective wage bill	Monthly, within three weeks of the end of each month
Expenditure on social assistance as stipulated under activity 457 of social payments paid from the social fund budget	Monthly, within three weeks of the end of each month
Expenditure on pensions and unemployment benefits, and health expenditures as reported by NSIH and NHIC respectively	Monthly, within three weeks of the end of each month
Domestic debt	Monthly, within two weeks of the end of each month
Domestic arrears	Monthly, within three weeks of the end of each month
Privatization receipts received by the budget (in lei and foreign exchange, net of divestiture transactions costs)	Monthly within three weeks of the end of each month
Monetary data (to be provided by the NBM)	Weekly within one week of the end of each week
Monetary survey of the NBM	
Monetary survey for the whole banking system	Weekly within two weeks of the end of each week
Net claims on general government (NBM and commercial banks)	Weekly within two weeks of the end of each week
Financial indicators of commercial banks (from NBM's Banking Supervision)	Monthly within four weeks of the end of each month
Foreign exchange cash flows	Monthly, within two weeks of the end of each month
Foreign exchange operations (NBM data)	Monthly, within two weeks of the end of each month
Foreign exchange market data (volume of trades, interventions, exchange rates)	Daily within 12 hours of the end of each day
NBM's sterilization operations	Weekly within one week of the end of each week
Interbank transactions (volumes, average rates)	Weekly within one week of the end of each week

Table 1. Moldova: Data to be Reported to the IMF (continued)

Item	Periodicity
Balance of Payments (to be provided by the NBM)	
Current and capital account data.	One quarter after the end of the previous quarter
Transfers of individuals from abroad through the banking system	Monthly within six weeks of the end of each month
External debt data (to be provided by MoF and NBM)	
Information on all new external loans contracted by the government or government guarantee.	Monthly within three weeks of the end of each month
Total debt service due by creditor, and debt service paid.	Monthly within three weeks of the end of each month
Disbursements of grants and loans by creditor	Monthly, within three weeks of the end of each month
Other data (to be provided by NBS)	
Overall consumer price index.	Monthly within two weeks of the end of each month.
National accounts by sector of production, in nominal and real terms.	Quarterly within three months of the end of each quarter.
Export and import data on value, volume, and unit values, by major categories and countries.	Monthly within two months of the end of each month.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF MODOVA

Joint IMF/World Bank Debt Sustainability Analysis Under the Debt Sustainability Framework for Low-Income Countries[1]

Approved by Juha Kähkönen and Christian Mumssen (IMF)
and Jeffrey D. Lewis and Yvonne M. Tsikata (IDA)

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Moldova's risk of debt distress remains low, as all public external debt and debt service indicators are expected to remain below the relevant indicative thresholds over the long term, notwithstanding the projected relatively large borrowing in the next few years.[2] *Total public debt is manageable as well. Nevertheless, continued prudent debt management as well as cautious assessment and monitoring of project financing will be required to mitigate the risks to public and publicly guaranteed debt sustainability arising, among other factors, from large private sector debt and potential contingent liabilities related to gas payment arrears of the breakaway region of Transnistria.*

I. BACKGROUND

1. **The results of this debt sustainability analysis (DSA) are similar to those of the previous DSA issued in early 2010.**[3] The 2010 DSA concluded that the risk of public debt distress was low, but sizeable private external debt, arrears on energy payments, and history of debt distress warrant caution in public borrowing.

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[1] This DSA was prepared jointly by the IMF and World Bank. The debt data underlying this exercise were provided by the Moldova authorities.

[2] The low-income country debt sustainability framework (LIC-DSF) recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels for debt indicators are policy-dependent. In the LIC-DSF, the quality of a country's policies and institutions is measured by the World Bank's Country Policy and Institutional Assessment (CPIA) index and classified into three categories: strong, medium, and weak. Moldova's policies and institutions, as measured by the CPIA, averaged 3.75 over the past three years, placing it in the "medium performer" category, defined as countries with a three year average CPIA below or at 3.75 but above 3.25. The relevant indicative thresholds for this category are: 40 percent for the present value (PV) of debt-to-GDP ratio, 150 percent for the PV of debt-to-exports ratio, 250 percent for the PV of debt-to-revenue ratio, 20 percent for the debt service-to-exports ratio, and 30 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed external debt. As remittances represent large and relatively stable inflows to Moldova, modified debt burden indicators—adding remittances to GDP and exports—are used with thresholds lower than the applicable DSF thresholds by 1/10.

[3] IMF Country Report No. 10/32.

2. **Indicators of debt burden have improved as a result of a downward revision in near-term borrowing projections relative to the 2010 DSA and an update of the macroeconomic framework.** As in the previous DSA, the macroeconomic framework is based on the program supported by a blend of Extended Credit Facility and Extended Fund Facility Arrangements (ECF/EFF). The uptake from commitments pledged at the Brussels Consultative Group meeting of development partners in March 2010 has been lower than expected, in part due to issues with implementation of partners' conditionality and procedural requirements. In line with recent developments, the baseline assumptions for economic growth, budget revenue, fiscal balance, and net exports are more optimistic, and the projected rate of external debt accumulation is somewhat lower compared to the previous DSA, which affects positively long-term debt dynamics. However, the lower discount rate—4 percent, down from 5 percent in the 2010 DSA as a result of lower global interest rates—raises the PV of external debt across the board.

3. **Moldova's external public and publicly guaranteed (PPG) debt stock remains low despite the increase in the last two years.** The PV of debt at end-2010 was 16 percent of the sum of GDP and remittances or 32 percent of the sum of exports and remittances. Pick-up in borrowing partly due to initiation of the ECF/EFF arrangements contributed to a rise in the ratio of external PPG debt to GDP over the past few years. The stock of external PPG debt rose slightly to 22 percent of GDP (US$1.3 billion) at end-2010 from 20 percent of GDP (US$1.0 billion) in 2007.[4] External debt service remains low thanks to high concessionality of external borrowing as well as grace periods and low interest rates following the 2006 Paris Club deal. Private external debt—which totaled 45 percent of GDP at end-2010—has increased sharply over the last few years, driven mainly by an increase in trade-related and

Moldova: External Public Debt Indicators at End-2010

	Indicative Thresholds	End-2010
Present value of debt, as a percent of:		
GDP and remittances	36	16
Exports and remittances	135	32
Revenue	250	55
Debt service, as a percent of:		
Exports and remittances	18	2
Revenue	30	4

Source: IMF staff estimates.

Moldova: Stock of Public and Publicly-Guaranteed External Debt at End-2010

	In billions of U.S. Dollars	As a Share of Total External Debt	In percent of GDP
Total	1,302	100	22
Multilateral	1,059	81	18
Bilateral	232	18	4
Commercial	11	1	0

Sources: Moldovan authorities, and IMF staff estimates.

[4] Following the DSA guidelines, the non-guaranteed SOE's debt is not included into the PPG debt, as the Fund-supported program's technical memorandum of understanding excludes such debt from the external debt limit. The authorities have not provided guarantees for SOE's borrowing over the last few years (the Law on Public Debt, Government Guarantees, and On-lending (No. 419, 2006) includes a significant charge for such guarantees). The SOEs' non-guaranteed external debt totaled MDL 330 million (about 0.5 percent of GDP) at end-2010.

other short-term debt related to energy imports. At end-2010, about 59 percent of private external debt was contracted on a short-term basis. Private external debt significantly exceeds the levels observed in other developing countries, representing a macroeconomic vulnerability and a potential risk for debt sustainability.

4. **Around 81 percent of external PPG debt is held by multilateral creditors**, mainly the IMF (US$507 million, 39 percent) and the International Development Association (IDA, 30 percent). About 18 percent is held by bilateral creditors—mainly Russia and the USA. Commercial borrowing comprises the remaining 1 percent of PPG external debt.

5. **Domestic public debt has remained rather low.** At end-2010, the stock of recorded domestic public debt amounted to 7.4 percent of GDP, similar to 7.0 percent of GDP at end-2007, as the market for domestic government securities is still shallow. However, domestic public debt interest payments are comparable to the ones on external debt due to higher interest rates. Total PPG domestic and external debt stood at 29.8 percent of GDP at end-2010.

II. Underlying Debt Sustainability Analysis Assumptions

6. **Box 1 summarizes the medium-term macroeconomic framework underlying the DSA.** The baseline macroeconomic projections take into account the expected sizeable fiscal and external adjustment under the program supported by IMF arrangements. Most notably, the baseline scenario—which is based on current policies—projects annual average growth of 4.8 percent in 2011–16, slightly above the crisis-affected average for the last five years. Growth is expected to be supported by pick-up in investment and a rise in net exports. Recent government initiatives to facilitate exports, progress in free trade negotiations with the European Union, and improving economic conditions in other trade partners suggest a positive external outlook.

Box 1: Baseline Macroeconomic Assumptions (2011–31)

The baseline macroeconomic framework assumes that further development of Moldova's potential in export-oriented sectors and a strengthening of macroeconomic policies will underpin the economy.

- **Real GDP growth** is projected to average 4.8 percent in 2011–16 supported by strong performance in remittances, exports, and investments. Over the longer term, envisaged structural reforms would create an enabling environment, broadening the sources of growth. Correspondingly, the estimate of the long-term potential GDP growth has been revised up to 5 percent from 4 percent.
- **Inflation** is projected to stay close to 8 percent in 2011 due to pick-up in global energy prices despite ongoing leu appreciation, and gradually decline to below 6 percent by end-2012. From 2013 on, inflation is expected to moderate to 5 percent, assuming sound public sector policies, absence of further exogenous price shocks, and strong commitment of the National Bank to preserving price stability.
- The **current account deficit** is expected to widen to above 11 percent in the near term, as worsening in trade balance is only partially offset by a rebound in remittances. Over the medium and long term, the current account deficit is projected to stabilize at about 8 percent. Exports are projected to accelerate in the medium term, as authorities' efforts in developing export-oriented sectors come to fruition and Moldova makes full use of its autonomous trade preferences and the forthcoming free trade agreement with the EU. Exports of goods and services are expected to reach almost 49 percent of GDP over the medium term. Imports are projected to be buoyant, reflecting the strong domestic demand and the high import content of exports, and eventually to stabilize at 84 percent of GDP. Remittance inflows—which are among the largest in the world relative to GDP—are projected to rise somewhat in the near term and then gradually decline well below current levels by 2031.The developments in remittances are expected to reflect an increase in domestic employment opportunities and severance of ties between long-term immigrants and the home country.
- **External financing** is assumed to shift from concessional to market financing over the long term reflecting economic developments and Moldova's graduation from low-income status. Given development needs and absorption capacity, public external borrowing is assumed to be about 2 percent of GDP over the long term, compared with 1.6 percent in 2010.
  - ***Multilateral creditors:*** Projected loan disbursements in the near to medium term are relatively high due to the recent commitments made at the March 2010 Consultative Group meeting in Brussels, in particular for infrastructure development. From mid-2011, terms on new IDA loans were changed to 1.25 percent interest change, 5-year grace period and a 25-year maturity.
  - ***Bilateral creditors:*** Over the medium and long term, borrowing from bilateral sources is projected to decline due to the likely opening of market access.
  - ***Commercial creditors:*** Over the long term, commercial borrowing is projected to increase. Economic development and financial integration are likely to widen the range of financing sources, including market access. The terms are assumed to be in line with the recent borrowings of sub-investment grade sovereigns.
- **Fiscal policy** is projected to stay on a consolidation path in the medium term. The deficit is projected to narrow to about 0.5 percent of GDP in 2016 from 2.5 percent in 2010 and then to stabilize at this level over the long term. The consolidation is expected to be supported by ongoing tax policy and tax administration reforms and rationalization of primary non-interest expenditures.
- **Domestic debt** is expected to increase over the long term driven by deepening of the domestic banking sector and development of local capital market. Real interest rates on domestic debt are projected to average about 4.5 percent compared to the crisis-influenced average of 5.8 percent in 2008–10. The public debt held by the National Bank of Moldova is projected to be gradually repaid over the medium term.

III. Debt Sustainability

A. External Debt Sustainability Analysis

7. **Under the baseline scenario, all external debt and debt service indicators remain well below the relevant indicative debt burden thresholds over the projection period** (Figure 1 and Table 1). All three external debt stock indicators are projected to be on a declining trend from 2011 onward, reflecting prudent fiscal policy and strong economic growth. Debt service ratios (both as a share of exports and government revenue) rise somewhat from low levels, but remain well below indicative thresholds throughout the 20-year projection period despite falling concessionality.

8. **External debt sustainability is most vulnerable to an export growth shock** (Table 3).[5] Table 3 and Figure 1 illustrate how a temporary decline in export growth (by one standard deviation in 2012–13) would push the debt service-to-exports-and-remittances and debt service-to-revenue ratios up in the medium term. The ratios would converge to the baseline in the long term.[6]

9. **Debt dynamics are worse under an alternative scenario in which key variables are at their historical averages in the longer term** (Figure 1). The debt burden indicators under the historical scenario evolve non-monotonically: they are below the baseline indicators in the near term, but exceed them in the long term. This profile arises from the difference between the baseline paths of the current account balance and FDI flows and their historical averages. In the near term, the FDI flows are projected to be below the historical averages, but exceed them in the medium and long term due to the expected influx of FDI brought by the improving business climate and privatization prospects. In the past, Moldova experienced severe economic contractions, which lowered FDI's historical average.

B. Total Public Debt Sustainability

10. **Under the baseline scenario, the PV of total PPG debt in percent of GDP and in percent of revenue are both projected to decline over the medium term** (Figure 2 and Table 2). Total PPG debt largely consists of the external PPG debt in the medium term hence it closely follows the dynamics of its external component. However, over the long term the structure of PPG debt is projected to shift toward a larger share of domestic debt. The decline in the grant element of new external borrowing would make domestic borrowing relatively more attractive, also taking into the account the exchange rate risks associated with external

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[5] The most extreme stress test is defined as the bound test resulting in the most extreme deterioration of the debt burden indicator after 10 years. The sensitivity analysis of both external PPG and total PPG debt is based on bound tests, which test debt indicators' sensitivity to temporary shocks to key macro variables, and on alternative scenarios, which presents an alternative evolution of the debt ratio in response to long-term shocks.

[6] Figure 1b presents the same analysis using only GDP as a denominator, rather than GDP plus remittances.

borrowing and a likely increase in foreign interest rates. The authorities' effort to develop domestic capital markets are also expected to increase the range of investors and lower the cost of domestic debt. The shift towards non-concessional external borrowing and domestic debt leads to a slight pick-up in debt service ratios in the long term.

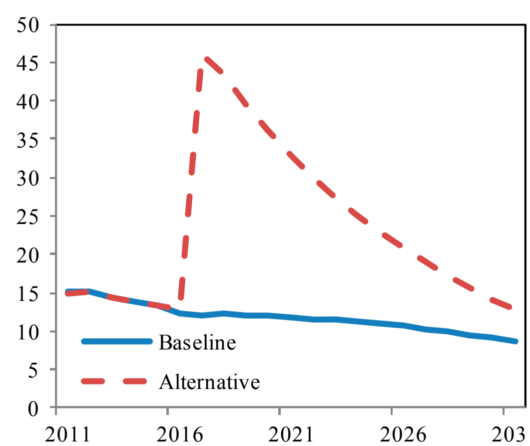
11. **Public debt ratios are particularly sensitive to a decline in GDP growth** (Table 4). A moderation in real GDP growth in 2012-13 (to the historical average minus one standard deviation) would raise the PV of public debt-to-GDP ratio and the PV of public debt-to-revenue ratio to 67 percent and 201 percent, respectively, by the end of projection period from 25 percent and 68 percent in 2011. The impact on the debt service-to-revenue ratio is also a concern, leading to an increase to around 26 percent in 2031.

12. **Under alternative scenarios, debt dynamics worsen significantly, especially over the long term.** One alternative scenario keeps the primary balance unchanged from its 2011 level (the red dashed line in Figure 2). Given that the 2011 primary deficit of 1.1 percent of GDP is significantly larger than the one targeted in 2012 and over the projection period, it is not surprising that the scenario results in deteriorating debt dynamics. The scenario with permanently lower GDP growth (the thin black line in Figure 2) generates even steeper upward path in debt burden indicators. These scenarios underscore the need to conduct prudent fiscal policy and safeguard macroeconomic stability. The scenario with key macroeconomic variables at their respective historical averages has slightly more benign debt dynamics than the baseline, mostly due to the fact that historical average of primary surplus is better than the baseline assumption thanks to large surpluses in the early 2000s.

IV. Scenario Including Transnistria's Gas Debt

13. **This section explores a highly hypothetical alternative scenario—undertaken at the request of IMF Executive Directors—in which the government has to assume the debt of the gas-importing company Moldovagaz, stemming mainly from exposure to the breakaway region of Transnistria**. Owing to chronic underpayment by Transnistria's energy distribution company for the gas imported from Russia, Moldovagaz had about US$2.5 billion of debt related to Transnistria on its balance sheet at end-2010.[7] If the debt is called, Moldovagaz would not be able to repay it itself. A number of potential debt resolution scenarios are possible. The possibility examined here—without any

PV of debt-to-GDP+remittances ratio

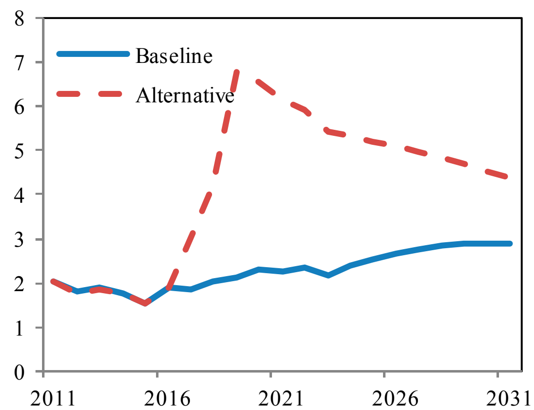


[7] Moldovagaz is a joint-stock company, in which the Russian gas supplier Gazprom holds 50 percent of shares, Moldova's government controls 35.3 percent, and Transnistrian local authorities hold 13.4 percent of shares, which is currently managed by Gazprom as well.

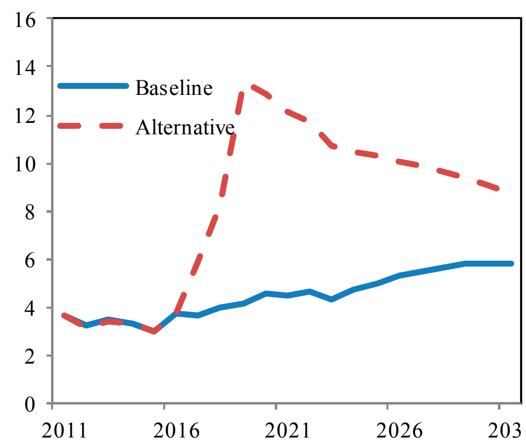
prejudice regarding its likelihood—is that the government would need to step in. As accumulation of arrears to the tune of US$500 million a year continues in Transnistria, the debt stock is conservatively assumed to rise further to US$5 billion and be repaid at the relatively high interest rate of 4 percent over a relatively short (for debt of that size) 20-year period with one year grace. The fiscal and balance of payments assumptions are adjusted accordingly. The external PPG debt would consequently surge to about 60 percent of GDP in the year the gas debt is assumed.

14. **If it materializes, this scenario would lead to a significant deterioration in the debt dynamics, but is not expected to cause a debt crisis.** Under the scenario, PV of debt relative to the sum of GDP and remittances ratio would briefly breach the relevant threshold (Figure 3 and Tables 5 and 6). It would also lead to a substantial worsening of debt service indicators over long term, suggesting a large public sector burden. Still, the risk of debt distress would increase only to "moderate" rather than to "high".[8]

Debt service-to-exports+remittances ratio



Debt service-to-revenue ratio



V. The Authorities' View

15. **The authorities concurred with the overall assessment under the baseline, presented to them in May 2011.** They acknowledged the need for fiscal consolidation and strengthening of debt management. With the help of developing partners, the authorities are currently making efforts to develop the domestic government securities market to broaden the range of sources of potential financing. They agreed on the need to borrow on concessional terms and refrain from commercial borrowing in the medium term until debt management and project implementation capacity increase.

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[8] In principle, this scenario could also lead to some gains for the state of Moldova, possibly in the form of increased share of Moldovagaz' capital. As such gains would not materially affect GDP, exports, or budget revenue, they are not included in the empirical analysis.

16. **Both Moldovagaz and the Moldova authorities stated that they do not recognize any debt related to Transnistria's underpayment for imported gas.** They pointed out that Moldovagaz has no control over collections in Transnistria and thus cannot be held liable for underpayment there. Moreover, a plan for separation of Moldovagaz' assets and liabilities between Transnistria and the rest of Moldova—under which each side will pay to Gazprom separately for the gas it buys—exists since 2007, but practical progress has been slow. Staff agreed, while pointing out that an analysis of the implications of Transnistria's gas debt, which technically remains on Moldovagaz' balance sheet, has been a longstanding request of a number of IMF Executive Directors.

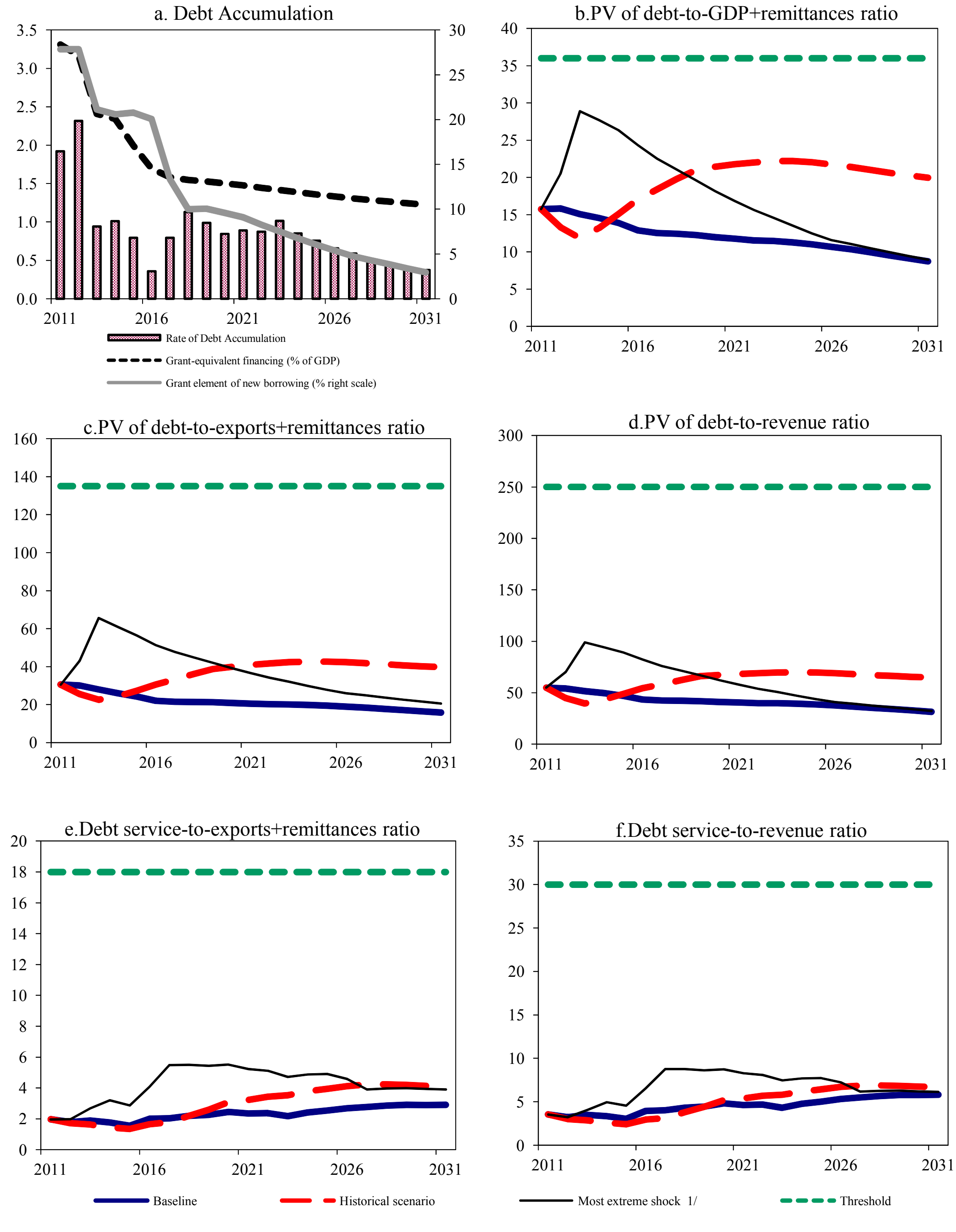
VI. Conclusion

17. **Moldova is assessed to be at a low risk of debt distress based on external debt burden indicators.** Under the baseline scenario, all indicators of PPG external debt stay in safe territory. Stress tests suggest that the current relatively benign outlook is somewhat dependent on the macroeconomic improvement, as keeping key macroeconomic variables at their historical averages level over the projection period results in worse debt dynamics. This highlights the benefits of safeguarding macroeconomic stability and continuing with growth-enhancing structural reforms. In addition, debt service indicators are sensitive to shocks to export growth, partly as exports are an important growth driver in Moldova. The public DSA suggests that Moldova's overall public sector debt dynamics are sustainable provided fiscal adjustment continues as planned and is sustained after the end of the current Fund-supported program.

18. **Sustained improvement in governance and quality of institutions would help to substantially reduce debt vulnerabilities.** Moldova is currently on the borderline between medium and strong policy performer. Progress with institutional reforms would help to move to strong performer status and thus allow more borrowing without raising debt vulnerability.

19. **The alternative scenario including gas payment arrears related to Transnistria illustrates one particular, if hypothetical, risk to the debt outlook.** If it nevertheless materializes, this scenario would significantly stress Moldova's debt servicing capacity and macroeconomic stability. At the same time, it appears unlikely to cause severe debt distress even under the employed conservative assumptions, as Moldova's risk of debt distress rises from "low" to "moderate" rather than to "high".

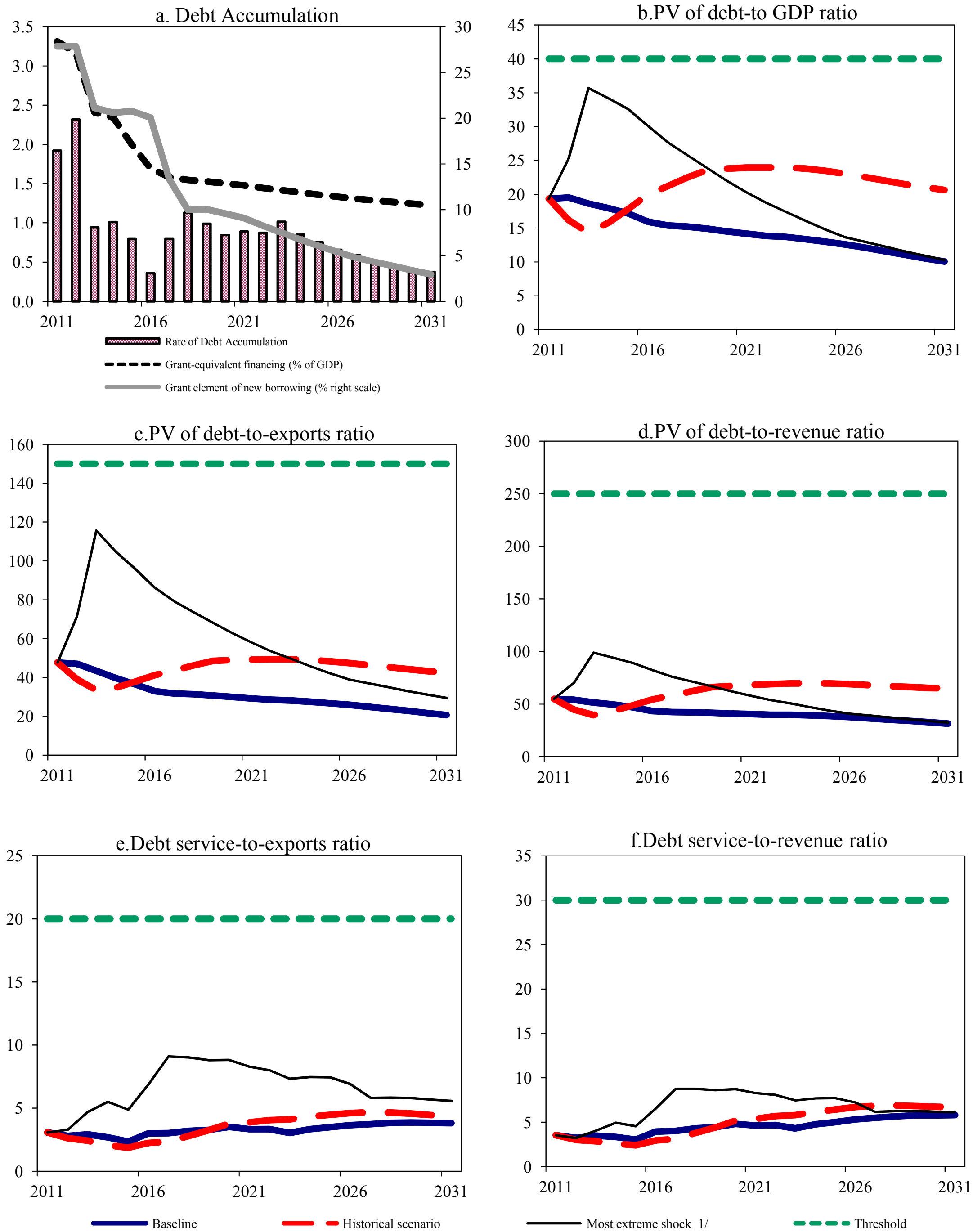
Figure 1:Moldova: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. 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

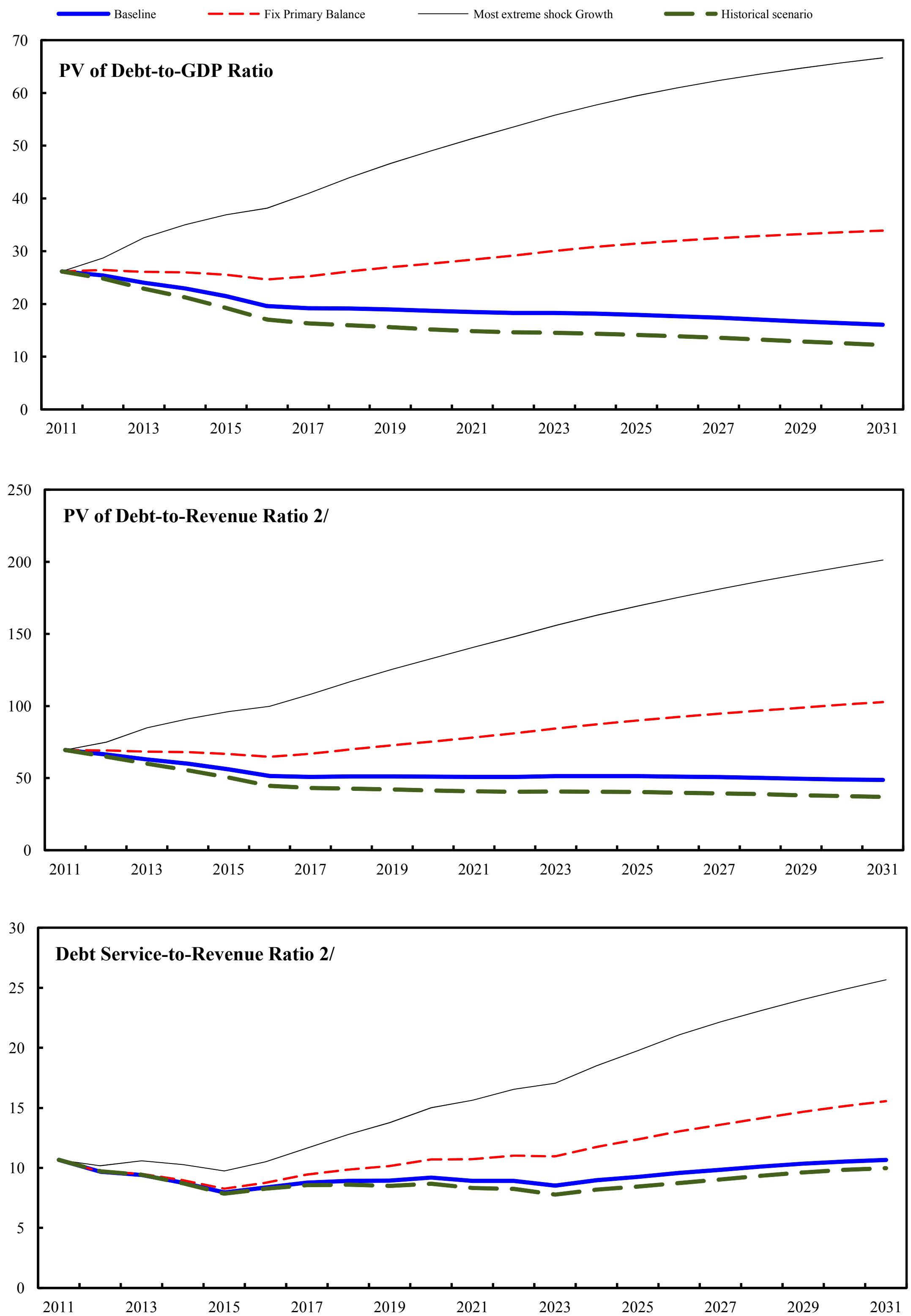
Figure 1.b. Moldova: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. 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, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021.

2/ Revenues are defined inclusive of grants.

Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2008-2031 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt (nominal) 1/	**55.6**	**68.2**	**67.7**			**65.4**	**68.1**	**68.3**	**67.2**	**65.5**	**62.5**		**56.1**	**44.2**	
o/w public and publicly guaranteed (PPG)	16.0	23.2	22.5			21.5	22.0	20.8	19.9	18.9	17.5		15.5	11.5	
Change in external debt	-7.1	12.6	-0.6			-2.3	2.7	0.2	-1.1	-1.8	-2.9		-1.4	-1.0	
Identified net debt-creating flows	-12.6	12.5	0.5			2.6	2.7	1.0	-1.5	-2.5	-3.6		-1.9	-1.3	
Non-interest current account deficit	**15.5**	**7.2**	**7.4**	**8.0**	**5.3**	**7.7**	**8.4**	**8.0**	**6.7**	**6.0**	**5.6**		**6.4**	**6.9**	6.5
Deficit in balance of goods and services	53.3	36.6	38.9			40.0	40.3	39.4	37.7	36.5	35.7		35.6	35.6	
Exports	41.0	36.8	39.9			40.5	41.5	42.9	45.3	47.2	48.4		48.6	48.6	
Imports	94.3	73.4	78.8			80.5	81.8	82.2	83.0	83.7	84.1		84.2	84.2	
Net current transfers (negative = inflow)	-26.0	-21.2	-20.6	-20.8	4.6	-19.9	-19.8	-19.6	-18.9	-18.3	-17.5		-17.3	-17.3	-17.3
o/w official	-2.2	-1.9	-2.4			-2.0	-2.3	-2.6	-2.4	-2.1	-1.9		-1.9	-1.9	
Other current account flows (negative = net inflow)	-11.7	-8.2	-10.9			-12.4	-12.1	-11.8	-12.1	-12.2	-12.5		-11.9	-11.4	
Net FDI (negative = inflow)	**-11.8**	**-2.4**	**-3.5**	**-6.3**	**3.9**	**-4.0**	**-4.3**	**-5.5**	**-7.4**	**-7.7**	**-7.9**		**-7.3**	**-7.3**	-7.4
Endogenous debt dynamics 2/	**-16.4**	**7.6**	**-3.4**			**-1.2**	**-1.3**	**-1.5**	**-0.8**	**-0.8**	**-1.3**		**-0.9**	**-0.8**	
Contribution from nominal interest rate	0.8	1.3	0.9			1.6	1.6	1.6	2.0	1.9	1.7		1.7	1.3	
Contribution from real GDP growth	-3.6	3.7	-4.4			-2.8	-3.0	-3.1	-2.8	-2.8	-3.0		-2.6	-2.1	
Contribution from price and exchange rate changes	-13.6	2.6	0.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**5.5**	**0.1**	**-1.1**			**-4.8**	**0.0**	**-0.8**	**0.5**	**0.8**	**0.6**		**0.4**	**0.3**	
o/w exceptional financing	-1.3	-2.4	-2.5			-3.1	-3.4	-1.5	-0.9	-0.6	-0.7		-0.3	-0.1	
PV of external debt 4/	...	...	65.6			63.3	65.7	66.1	65.3	63.7	61.0		54.8	42.8	
In percent of exports	...	...	164.3			156.2	158.1	154.3	144.0	135.1	125.9		112.8	88.1	
PV of PPG external debt	**...**	**...**	**20.5**			**19.3**	**19.5**	**18.6**	**18.0**	**17.2**	**16.0**		**14.2**	**10.0**	
In percent of exports	**...**	**...**	**51.2**			**47.7**	**47.0**	**43.4**	**39.6**	**36.4**	**33.0**		**29.2**	**20.7**	
In percent of government revenues	**...**	**...**	**57.5**			**54.9**	**54.2**	**51.6**	**49.5**	**47.0**	**43.5**		**40.5**	**31.6**	
Debt service-to-exports ratio (in percent)	**14.9**	**19.9**	**17.6**			**19.3**	**17.5**	**14.4**	**15.9**	**15.9**	**14.9**		**15.2**	**11.6**	
PPG debt service-to-exports ratio (in percent)	**3.3**	**4.4**	**3.3**			**3.1**	**2.8**	**2.9**	**2.7**	**2.3**	**3.0**		**3.3**	**3.8**	
PPG debt service-to-revenue ratio (in percent)	**3.5**	**4.4**	**3.7**			**3.5**	**3.2**	**3.5**	**3.4**	**3.0**	**4.0**		**4.6**	**5.8**	
Total gross financing need (Millions of U.S. dollars)	1730.8	2018.4	2014.2			2362.7	2690.3	2819.4	2970.0	3127.8	3253.3		4804.6	9771.8	
Non-interest current account deficit that stabilizes debt ratio	22.7	-5.4	8.0			10.0	5.7	7.8	7.7	7.8	8.5		7.8	7.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.8	-6.0	6.9	4.5	4.9	5.0	5.0	5.0	4.5	4.5	5.0	4.8	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	27.6	-4.5	0.0	12.4	12.8	14.7	4.5	4.6	4.6	4.6	4.6	6.3	3.5	3.5	3.5
Effective interest rate (percent) 5/	1.7	2.1	1.5	2.2	0.6	2.9	2.8	2.6	3.2	3.2	2.9	2.9	3.2	3.0	3.2
Growth of exports of G&S (US dollar terms, in percent)	24.2	-19.4	16.0	13.2	17.3	22.1	12.5	13.3	15.6	13.7	12.8	15.0	8.7	8.7	8.7
Growth of imports of G&S (US dollar terms, in percent)	32.1	-30.1	14.8	17.3	22.6	23.1	11.5	10.3	10.3	10.2	10.4	12.6	8.7	8.7	8.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	27.9	27.9	21.1	20.6	20.8	20.1	23.0	9.1	2.9	7.0
Government revenues (excluding grants, in percent of GDP)	38.9	36.8	35.6			35.2	36.0	36.1	36.3	36.5	36.7		35.0	31.8	34.1
Aid flows (in Millions of US dollars) 7/	127.0	137.3	225.1			227.3	227.8	208.2	220.7	204.8	190.2		255.8	492.0	
o/w Grants	102.8	115.9	161.2			174.4	166.6	171.4	180.7	169.8	155.2		215.8	452.0	
o/w Concessional loans	24.2	21.4	63.9			53.0	61.2	36.8	40.0	35.0	35.0		40.0	40.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.3	3.2	2.4	2.3	2.0	1.7		1.5	1.2	1.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			60.9	55.1	63.1	61.5	62.8	59.4		43.6	40.3	42.5
Memorandum items:															
Nominal GDP (Millions of US dollars)	6054.8	5437.7	5810.4			6999.4	7680.4	8433.0	9217.0	10071.6	11062.6		16793.2	38698.0	
Nominal dollar GDP growth	37.6	-10.2	6.9			20.5	9.7	9.8	9.3	9.3	9.8	11.4	8.7	8.7	8.7
PV of PPG external debt (in Millions of US dollars)			1209.9			1321.3	1483.3	1555.4	1640.6	1713.5	1749.4		2358.9	3852.8	
(PVt-PVt-1)/GDPt-1 (in percent)						1.9	2.3	0.9	1.0	0.8	0.4	1.2	0.9	0.4	0.7
Gross workers' remittances (Millions of US dollars)	1795.8	1124.4	1282.4			1592.5	1784.9	1985.2	2165.7	2394.4	2632.5		3431.6	5831.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	16.8			15.7	15.8	15.1	14.5	13.9	12.9		11.8	8.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	33.0			30.5	30.1	28.0	26.1	24.2	22.1		20.5	15.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.1			2.0	1.8	1.9	1.8	1.6	2.0		2.3	2.9	

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 2.Moldova: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008-2031
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate					Projections				
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	21.6	31.7	29.9			28.3	27.8	26.2	24.9	23.2	21.2		19.8	17.5	
o/w foreign-currency denominated	16.0	23.2	22.5			21.5	22.0	20.8	19.9	18.9	17.5		15.5	11.5	
Change in public sector debt	-5.9	10.1	-1.8			-1.6	-0.4	-1.7	-1.3	-1.7	-2.0		-0.2	-0.3	
Identified debt-creating flows	-6.5	10.0	-3.3			-2.6	-2.6	-2.2	-1.6	-1.5	-1.6		-1.1	-1.0	
Primary deficit	-0.2	4.9	1.7	-0.8	2.9	1.1	0.0	-0.1	-0.1	-0.1	-0.2	0.1	-0.4	-0.4	-0.4
Revenue and grants	40.6	38.9	38.3			37.6	38.2	38.1	38.2	38.2	38.1		36.3	33.0	
of which: grants	1.7	2.1	2.8			2.5	2.2	2.0	2.0	1.7	1.4		1.3	1.2	
Primary (noninterest) expenditure	40.4	43.8	40.0			38.7	38.2	38.0	38.1	38.1	37.9		35.9	32.6	
Automatic debt dynamics	-4.4	5.4	-4.5			-3.1	-2.1	-1.7	-1.5	-1.4	-1.4		-0.8	-0.7	
Contribution from interest rate/growth differential	-5.5	3.5	-2.0			-3.9	-1.8	-1.7	-1.5	-1.4	-1.4		-0.8	-0.7	
of which: contribution from average real interest rate	-3.5	2.1	0.1			-2.4	-0.5	-0.4	-0.3	-0.3	-0.3		0.2	0.2	
of which: contribution from real GDP growth	-2.0	1.4	-2.0			-1.4	-1.3	-1.3	-1.1	-1.1	-1.1		-1.0	-0.8	
Contribution from real exchange rate depreciation	1.1	2.0	-2.5			0.8	-0.3	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-1.9	-0.4	-0.5			-0.6	-0.5	-0.4	-0.1	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-1.9	-0.4	-0.5			-0.6	-0.5	-0.4	-0.1	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	0.6	0.1	1.5			1.0	2.1	0.5	0.3	-0.2	-0.4		1.0	0.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	27.8			26.1	25.4	24.0	22.9	21.4	19.6		18.5	16.1	
o/w foreign-currency denominated	...	...	20.5			19.3	19.5	18.6	18.0	17.2	16.0		14.2	10.0	
o/w external	...	...	20.5			19.3	19.5	18.6	18.0	17.2	16.0		14.2	10.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.7	10.2	9.8			11.0	9.4	8.7	8.0	7.2	6.7		6.3	5.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	72.6			69.4	66.5	63.0	60.0	56.1	51.5		50.9	48.7	
PV of public sector debt-to-revenue ratio (in percent)	…	…	78.3			74.4	70.5	66.5	63.2	58.7	53.4		52.8	50.5	
o/w external 3/	…	…	57.5			54.9	54.2	51.6	49.5	47.0	43.5		40.5	31.6	
Debt service-to-revenue and grants ratio (in percent) 4/	10.4	6.9	4.8			10.7	9.7	9.4	8.8	8.0	8.4		8.9	10.7	
Debt service-to-revenue ratio (in percent) 4/	10.8	7.3	5.1			11.4	10.3	9.9	9.2	8.3	8.7		9.3	11.1	
Primary deficit that stabilizes the debt-to-GDP ratio	5.7	-5.2	3.4			2.7	0.4	1.6	1.2	1.6	1.8		-0.2	-0.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.8	-6.0	6.9	4.5	4.9	5.0	5.0	5.0	4.5	4.5	5.0	4.8	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	1.8	2.1	1.5	2.5	0.9	1.4	1.2	1.3	1.4	1.6	1.8	1.4	3.2	4.1	3.4
Average real interest rate on domestic debt (in percent)	5.4	15.7	-3.6	0.5	8.5	0.8	3.0	5.1	5.1	4.6	4.6	3.9	5.2	2.3	4.5
Real exchange rate depreciation (in percent, + indicates depreciation)	7.3	10.8	-11.3	0.8	7.9	4.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.2	2.2	11.2	9.9	4.4	8.8	6.3	5.0	5.0	5.0	5.0	5.9	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	27.9	27.9	21.1	20.6	20.8	20.1	23.0	9.1	2.9	...

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 3.Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to-GDP+remittances ratio								
Baseline	16	16	15	15	14	13	**12**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	16	13	12	13	15	17	**22**	20
A2. New public sector loans on less favorable terms in 2011-2031 2	16	16	16	16	15	14	**15**	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	16	16	16	16	15	14	**13**	9
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	16	21	29	28	26	24	**17**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	16	16	16	16	15	14	**13**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	16	21	25	23	22	20	**15**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	16	20	26	25	24	22	**16**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	16	20	19	19	18	17	**15**	11
PV of debt-to-exports+remittances ratio								
Baseline	31	30	28	26	24	22	**21**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	31	26	23	24	27	31	**41**	40
A2. New public sector loans on less favorable terms in 2011-2031 2	31	31	29	28	27	25	**26**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	31	30	28	26	24	22	**20**	16
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	31	43	66	61	56	51	**37**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	31	30	28	26	24	22	**20**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	31	41	48	41	38	35	**26**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	31	39	53	48	44	40	**30**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	31	30	28	26	24	22	**20**	16
PV of debt-to-revenue ratio								
Baseline	55	54	52	50	47	44	**40**	32
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	55	45	40	43	49	54	**68**	65
A2. New public sector loans on less favorable terms in 2011-2031 2	55	56	54	53	52	49	**51**	49
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	55	57	57	55	52	48	**45**	35
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	55	70	99	94	89	82	**58**	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	55	56	56	54	51	47	**44**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	55	68	82	79	75	68	**52**	32
B5. Combination of B1-B4 using one-half standard deviation shocks	55	67	90	86	81	75	**55**	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	55	75	72	69	65	60	**56**	44

Table 3.Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031 (continued)
(In percent)

Debt service-to-exports+remittances ratio

Baseline	2	2	2	2	2	2	**2**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	2	2	2	1	1	2	**3**	4
A2. New public sector loans on less favorable terms in 2011-2031 2	2	2	2	2	2	2	**2**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	2	2	2	2	2	2	**2**	3
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	2	2	3	3	3	4	**5**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	2	2	2	2	2	2	**2**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	2	2	2	2	2	3	**4**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	3	2	3	**4**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	2	2	2	2	2	2	**2**	3

Debt service-to-revenue ratio

Baseline	4	3	3	3	3	4	**5**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	4	3	3	3	2	3	**5**	7
A2. New public sector loans on less favorable terms in 2011-2031 2	4	3	4	3	3	4	**4**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	4	3	4	4	3	4	**5**	6
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	4	3	4	5	5	7	**8**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	4	3	4	4	3	4	**5**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	4	3	4	4	4	6	**7**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	4	3	4	5	4	6	**8**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	4	5	5	5	4	6	**6**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	3	3	3	3	3	3	**3**	3

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.

Table 4.Moldova: Sensitivity Analysis for Key Indicators of Public Debt 2011-2031

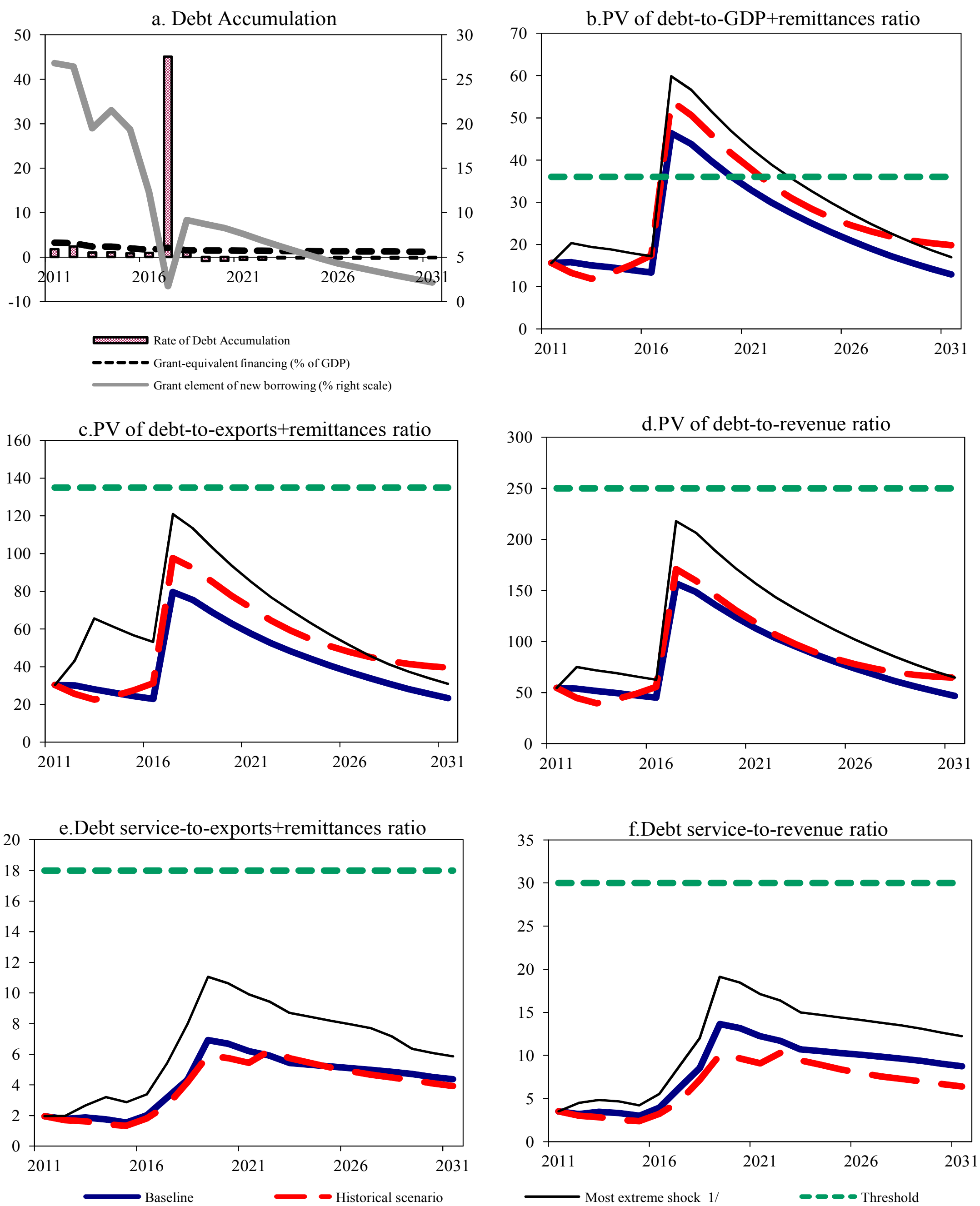
	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	26	25	24	23	21	20	18	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	25	23	21	19	17	15	12
A2. Primary balance is unchanged from 2011	26	26	26	26	26	25	28	34
A3. Permanently lower GDP growth 1/	26	26	26	26	26	26	39	81
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	26	29	33	35	37	38	51	67
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	26	27	28	27	25	23	21	18
B3. Combination of B1-B2 using one half standard deviation shocks	26	27	27	28	28	28	35	42
B4. One-time 30 percent real depreciation in 2012	26	33	31	29	28	25	24	22
B5. 10 percent of GDP increase in other debt-creating flows in 2012	26	35	33	32	30	27	25	20
PV of Debt-to-Revenue Ratio 2/								
Baseline	69	66	63	60	56	51	51	49
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	69	65	60	56	50	45	41	37
A2. Primary balance is unchanged from 2011	69	69	68	68	67	65	78	103
A3. Permanently lower GDP growth 1/	69	68	67	67	68	68	107	244
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	69	75	85	91	96	100	141	201
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	69	72	74	70	66	61	59	54
B3. Combination of B1-B2 using one half standard deviation shocks	69	70	70	72	73	73	95	127
B4. One-time 30 percent real depreciation in 2012	69	86	81	77	72	67	65	65
B5. 10 percent of GDP increase in other debt-creating flows in 2012	69	92	87	83	78	72	68	60
Debt Service-to-Revenue Ratio 2/								
Baseline	11	10	9	9	8	8	9	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	10	9	9	8	8	8	10
A2. Primary balance is unchanged from 2011	11	10	9	9	8	9	11	16
A3. Permanently lower GDP growth 1/	11	10	10	9	8	9	12	27
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	11	10	11	10	10	11	16	26
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	11	10	10	9	8	9	10	11
B3. Combination of B1-B2 using one half standard deviation shocks	11	10	10	9	9	9	12	18
B4. One-time 30 percent real depreciation in 2012	11	10	11	10	9	10	12	16
B5. 10 percent of GDP increase in other debt-creating flows in 2012	11	10	10	10	9	9	11	12

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.

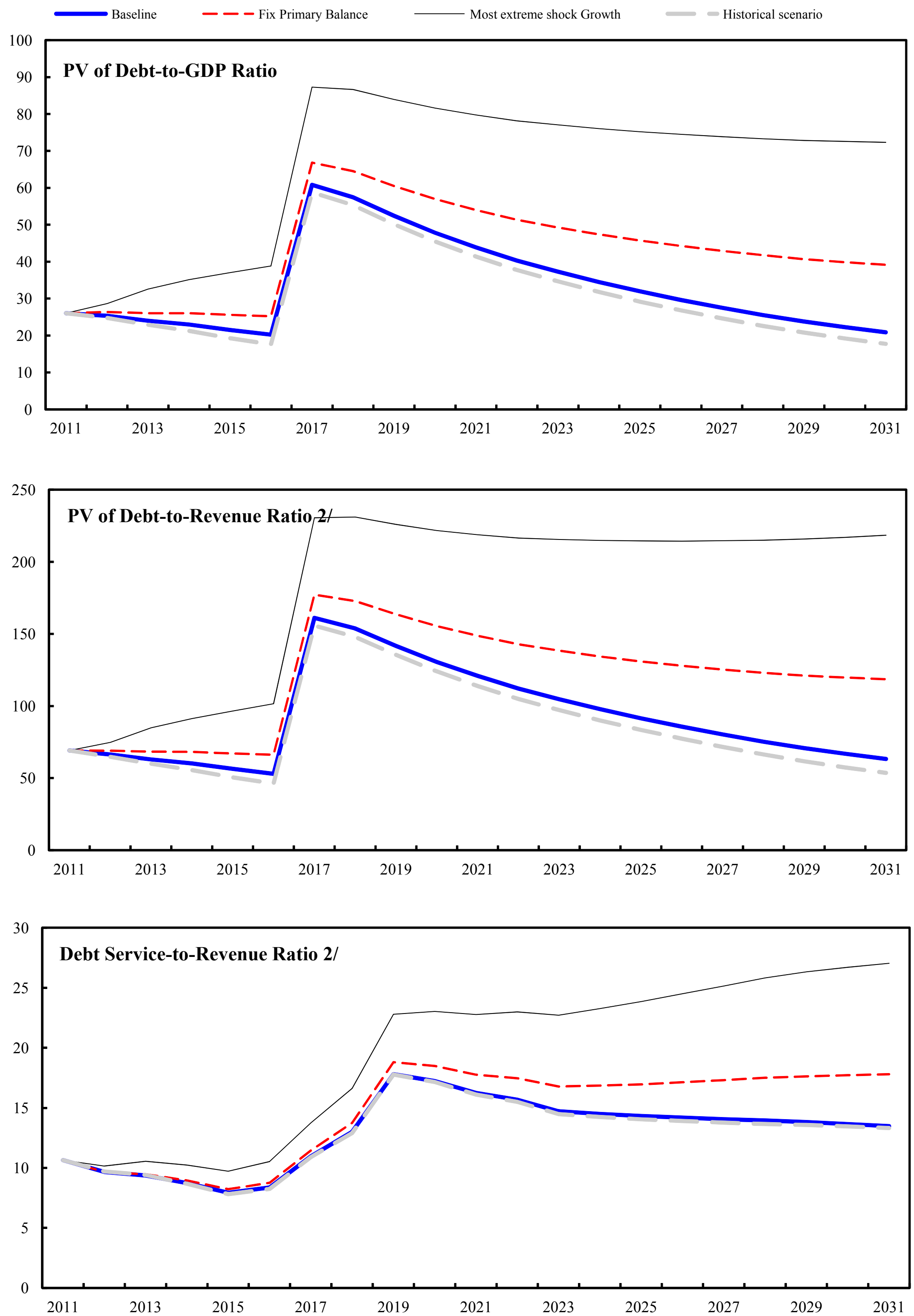
Figure 3: Moldova: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios -- Transnistria, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 4.Moldova: Indicators of Public Debt Under Alternative Scenarios --Transnistria, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021.

2/ Revenues are defined inclusive of grants.

Table 5.: External Debt Sustainability Framework, Baseline Scenario -- Transnistria, 2008-2031 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt (nominal) 1/	**55.6**	**68.2**	**67.7**			**65.2**	**67.9**	**68.1**	**67.2**	**65.4**	**63.0**		**82.3**	**49.2**	
o/w public and publicly guaranteed (PPG)	16.0	23.2	22.5			21.2	21.8	20.6	19.9	18.9	17.9		41.7	16.5	
Change in external debt	-7.1	12.6	-0.6			-2.5	2.8	0.2	-1.0	-1.7	-2.5		-5.3	-2.1	
Identified net debt-creating flows	-12.1	13.4	1.1			2.6	2.8	1.0	-1.5	-2.5	-3.6		-2.2	-1.8	
Non-interest current account deficit	**15.5**	**7.2**	**7.4**	**8.0**	**5.3**	**7.7**	**8.4**	**8.0**	**6.7**	**6.0**	**5.6**		**6.4**	**6.8**	6.5
Deficit in balance of goods and services	53.3	36.6	38.9			40.0	40.3	39.4	37.7	36.5	35.7		35.6	35.6	
Exports	41.0	36.8	39.9			40.5	41.5	42.9	45.3	47.2	48.4		48.6	48.6	
Imports	94.3	73.4	78.8			80.5	81.8	82.2	83.0	83.7	84.1		84.2	84.2	
Net current transfers (negative = inflow)	-26.0	-21.2	-20.6	-20.8	4.6	-19.9	-19.8	-19.6	-18.9	-18.3	-17.5		-17.3	-17.3	-17.3
o/w official	-2.2	-1.9	-2.4			-2.0	-2.3	-2.6	-2.4	-2.1	-1.9		-1.9	-1.9	
Other current account flows (negative = net inflow)	-11.7	-8.2	-10.9			-12.4	-12.1	-11.8	-12.1	-12.2	-12.5		-11.9	-11.5	
Net FDI (negative = inflow)	**-11.8**	**-2.4**	**-3.5**	**-6.3**	**3.9**	**-4.0**	**-4.3**	**-5.5**	**-7.4**	**-7.7**	**-7.9**		**-7.4**	**-7.8**	-7.5
Endogenous debt dynamics 2/	**-15.9**	**8.5**	**-2.8**			**-1.2**	**-1.3**	**-1.5**	**-0.8**	**-0.8**	**-1.3**		**-1.2**	**-0.9**	
Contribution from nominal interest rate	1.3	2.2	1.5			1.6	1.6	1.6	2.0	1.9	1.7		2.8	1.5	
Contribution from real GDP growth	-3.6	3.7	-4.4			-2.8	-3.0	-3.1	-2.8	-2.8	-3.0		-4.0	-2.4	
Contribution from price and exchange rate changes	-13.6	2.6	0.0			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**5.0**	**-0.8**	**-1.7**			**-5.0**	**0.0**	**-0.8**	**0.6**	**0.8**	**1.1**		**-3.1**	**-0.3**	
o/w exceptional financing	-1.3	-2.4	-2.5			-3.1	-3.4	-1.5	-0.9	-0.6	-0.7		-0.3	-0.1	
PV of external debt 4/	...	...	65.6			63.1	65.6	66.1	65.3	63.8	61.6		80.2	47.6	
In percent of exports	...	...	164.3			155.9	158.0	154.3	144.1	135.3	127.2		165.1	98.1	
PV of PPG external debt	**...**	**...**	**20.5**			**19.2**	**19.5**	**18.6**	**18.0**	**17.3**	**16.6**		**39.6**	**14.9**	
In percent of exports	**...**	**...**	**51.2**			**47.4**	**46.9**	**43.5**	**39.8**	**36.6**	**34.2**		**81.5**	**30.7**	
In percent of government revenues	**...**	**...**	**57.5**			**54.6**	**54.0**	**51.6**	**49.7**	**47.3**	**45.2**		**113.1**	**46.8**	
Debt service-to-exports ratio (in percent)	**14.9**	**19.9**	**17.6**			**19.3**	**17.5**	**14.4**	**15.9**	**15.9**	**14.9**		**20.6**	**13.6**	
PPG debt service-to-exports ratio (in percent)	**3.3**	**4.4**	**3.3**			**3.1**	**2.8**	**2.9**	**2.7**	**2.3**	**3.0**		**8.8**	**5.7**	
PPG debt service-to-revenue ratio (in percent)	**3.5**	**4.4**	**3.7**			**3.5**	**3.2**	**3.5**	**3.3**	**3.0**	**4.0**		**12.2**	**8.7**	
Total gross financing need (Millions of U.S. dollars)	1730.8	2018.4	2014.2			2362.7	2690.3	2819.4	2970.0	3127.8	3253.3		5240.2	9965.3	
Non-interest current account deficit that stabilizes debt ratio	22.7	-5.4	8.0			10.2	5.6	7.8	7.6	7.8	8.1		11.7	9.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.8	-6.0	6.9	4.5	4.9	5.0	5.0	5.0	4.5	4.5	5.0	4.8	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	27.6	-4.5	0.0	12.4	12.8	14.7	4.5	4.6	4.6	4.6	4.6	6.3	3.5	3.5	3.5
Effective interest rate (percent) 5/	2.8	3.5	2.4	3.5	0.8	2.8	2.8	2.6	3.2	3.1	2.9	2.9	3.5	3.1	3.5
Growth of exports of G&S (US dollar terms, in percent)	24.2	-19.4	16.0	13.2	17.3	22.1	12.5	13.3	15.6	13.7	12.8	15.0	8.7	8.7	8.7
Growth of imports of G&S (US dollar terms, in percent)	32.1	-30.1	14.8	17.3	22.6	23.1	11.5	10.3	10.3	10.2	10.4	12.6	8.7	8.7	8.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	26.8	26.4	19.5	21.5	19.4	12.3	21.0	7.6	2.1	5.2
Government revenues (excluding grants, in percent of GDP)	38.9	36.8	35.6			35.2	36.0	36.1	36.3	36.5	36.7		35.0	31.8	34.1
Aid flows (in Millions of US dollars) 7/	127.0	137.3	225.1			227.3	227.8	208.2	231.2	204.8	190.2		255.8	492.0	
o/w Grants	102.8	115.9	161.2			174.4	166.6	171.4	180.7	169.8	155.2		215.8	452.0	
o/w Concessional loans	24.2	21.4	63.9			53.0	61.2	36.8	50.5	35.0	35.0		40.0	40.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.2	3.1	2.4	2.4	2.0	1.6		1.5	1.2	1.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			61.7	54.1	62.3	61.0	62.2	49.6		41.3	38.3	37.7
Memorandum items:															
Nominal GDP (Millions of US dollars)	6054.8	5437.7	5810.4			6999.4	7680.4	8433.0	9217.0	10071.6	11062.6		16793.2	38698.0	
Nominal dollar GDP growth	37.6	-10.2	6.9			20.5	9.7	9.8	9.3	9.3	9.8	11.4	8.7	8.7	8.7
PV of PPG external debt (in Millions of US dollars)			1209.9			1313.2	1480.0	1555.8	1646.8	1723.3	1816.0		6588.4	5712.4	
(PVt-PVt-1)/GDPt-1 (in percent)						1.8	2.4	1.0	1.1	0.8	0.9	1.3	-0.7	-0.3	2.7
Gross workers' remittances (Millions of US dollars)	1795.8	1124.4	1282.4			1592.5	1784.9	1985.2	2165.7	2394.4	2632.5		3431.6	5831.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	16.8			15.6	15.8	15.1	14.6	14.0	13.4		32.9	12.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	33.0			30.4	30.1	28.0	26.2	24.3	22.9		57.4	23.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.1			2.0	1.8	1.9	1.8	1.5	2.0		6.2	4.4	

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 6.Moldova: Public Sector Debt Sustainability Framework, Baseline Scenario--Transnistria, 2008-2031
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2008	2009	2010	Average 5/	Standard Deviation 5/	2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	21.6	31.7	29.9			28.1	27.7	26.0	24.8	23.1	21.6		46.0	22.5	
o/w foreign-currency denominated	16.0	23.2	22.5			21.2	21.8	20.6	19.9	18.9	17.9		41.7	16.5	
Change in public sector debt	-5.9	10.1	-1.8			-1.8	-0.4	-1.7	-1.2	-1.7	-1.6		-4.1	-1.4	
Identified debt-creating flows	-6.5	10.0	-3.3			-2.6	-2.5	-2.2	-1.6	-1.5	-1.6		-2.5	-1.4	
Primary deficit	-0.2	4.9	1.7	-0.8	2.9	1.1	0.0	-0.1	-0.1	-0.1	-0.2	0.1	-0.4	-0.4	-0.4
Revenue and grants	40.6	38.9	38.3			37.6	38.2	38.1	38.2	38.2	38.1		36.3	33.0	
of which: grants	1.7	2.1	2.8			2.5	2.2	2.0	2.0	1.7	1.4		1.3	1.2	
Primary (noninterest) expenditure	40.4	43.8	40.0			38.7	38.2	38.0	38.2	38.1	37.9		35.9	32.6	
Automatic debt dynamics	-4.4	5.4	-4.5			-3.1	-2.0	-1.7	-1.5	-1.4	-1.4		-2.1	-0.9	
Contribution from interest rate/growth differential	-5.5	3.5	-2.0			-3.9	-1.8	-1.7	-1.5	-1.4	-1.4		-2.1	-0.9	
of which: contribution from average real interest rate	-3.5	2.1	0.1			-2.4	-0.5	-0.4	-0.3	-0.3	-0.3		0.2	0.2	
of which: contribution from real GDP growth	-2.0	1.4	-2.0			-1.4	-1.3	-1.3	-1.1	-1.1	-1.1		-2.4	-1.1	
Contribution from real exchange rate depreciation	1.1	2.0	-2.5			0.8	-0.2	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-1.9	-0.4	-0.5			-0.6	-0.5	-0.4	-0.1	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-1.9	-0.4	-0.5			-0.6	-0.5	-0.4	-0.1	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	0.6	0.1	1.5			0.8	2.1	0.5	0.4	-0.2	0.0		-1.5	-0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	27.8			26.0	25.3	24.0	23.0	21.5	20.2		43.9	20.9	
o/w foreign-currency denominated	...	...	20.5			19.2	19.5	18.6	18.0	17.3	16.6		39.6	14.9	
o/w external	...	...	20.5			19.2	19.5	18.6	18.0	17.3	16.6		39.6	14.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.7	10.2	9.8			11.0	9.4	8.7	8.0	7.2	6.7		9.0	6.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	72.6			69.1	66.3	63.0	60.1	56.4	53.1		120.9	63.4	
PV of public sector debt-to-revenue ratio (in percent)	…	…	78.3			74.0	70.3	66.5	63.4	59.0	55.1		125.3	65.7	
o/w external 3/	…	…	57.5			54.6	54.0	51.6	49.7	47.3	45.2		113.1	46.8	
Debt service-to-revenue and grants ratio (in percent) 4/	10.4	6.9	4.8			10.7	9.7	9.4	8.7	7.9	8.4		16.2	13.5	
Debt service-to-revenue ratio (in percent) 4/	10.8	7.3	5.1			11.4	10.2	9.9	9.2	8.3	8.7		16.8	14.0	
Primary deficit that stabilizes the debt-to-GDP ratio	5.7	-5.2	3.4			2.9	0.4	1.6	1.1	1.6	1.4		3.7	1.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.8	-6.0	6.9	4.5	4.9	5.0	5.0	5.0	4.5	4.5	5.0	4.8	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	1.8	2.1	1.5	2.5	0.9	1.4	1.1	1.2	1.4	1.6	1.8	1.4	3.6	3.9	3.9
Average real interest rate on domestic debt (in percent)	5.4	15.7	-3.6	0.5	8.5	0.8	3.0	5.1	5.1	4.6	4.6	3.9	5.2	2.3	4.5
Real exchange rate depreciation (in percent, + indicates depreciation)	7.3	10.8	-11.3	0.8	7.9	4.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.2	2.2	11.2	9.9	4.4	8.8	6.3	5.0	5.0	5.0	5.0	5.9	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	26.8	26.4	19.5	21.5	19.4	12.3	21.0	7.6	2.1	...

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 7.Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt -- Transnistria, 2011-2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to-GDP+remittances ratio								
Baseline	16	16	15	15	14	13	**33**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	16	13	12	13	15	17	**38**	20
A2. New public sector loans on less favorable terms in 2011-2031 2	16	16	16	16	15	15	**39**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	16	16	16	16	15	14	**35**	14
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	16	20	29	28	26	25	**39**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	16	16	16	16	15	14	**35**	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	16	21	25	23	22	21	**37**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	16	20	26	25	24	23	**38**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	16	20	19	19	18	17	**43**	17
PV of debt-to-exports+remittances ratio								
Baseline	30	30	28	26	24	23	**57**	23
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	30	26	23	25	27	31	**71**	40
A2. New public sector loans on less favorable terms in 2011-2031 2	30	31	29	28	26	25	**67**	37
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	30	30	28	26	24	23	**57**	23
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	30	43	66	61	57	53	**85**	31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	30	30	28	26	24	23	**57**	23
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	30	41	48	42	39	36	**64**	24
B5. Combination of B1-B4 using one-half standard deviation shocks	30	39	53	48	44	42	**72**	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	30	30	28	26	24	23	**57**	23
PV of debt-to-revenue ratio								
Baseline	55	54	52	50	47	45	**113**	47
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	55	45	40	44	49	56	**119**	65
A2. New public sector loans on less favorable terms in 2011-2031 2	55	56	54	53	51	50	**133**	74
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	55	56	57	55	52	50	**124**	51
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	55	70	99	95	90	85	**134**	49
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	55	56	56	54	52	49	**123**	51
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	55	68	83	79	75	71	**126**	48
B5. Combination of B1-B4 using one-half standard deviation shocks	55	67	90	86	81	77	**133**	49
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	55	75	72	69	66	63	**157**	65

Table 7.Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt -- Transnistria, 2011-2031 (continued)
(In percent)

Debt service-to-exports+remittances ratio

Baseline	2	2	2	2	2	2	**6**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	2	2	2	1	1	2	**5**	4
A2. New public sector loans on less favorable terms in 2011-2031 2	2	2	2	2	2	2	**4**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	2	2	2	2	2	2	**6**	4
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	2	2	3	3	3	3	**10**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	2	2	2	2	2	2	**6**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	2	2	2	2	2	2	**7**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	3	2	3	**8**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	2	2	2	2	2	2	**6**	4

Debt service-to-revenue ratio

Baseline	4	3	3	3	3	4	**12**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	4	3	3	3	2	3	**9**	6
A2. New public sector loans on less favorable terms in 2011-2031 2	4	3	4	3	3	4	**8**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	4	3	4	4	3	4	**14**	10
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	4	3	4	5	5	5	**16**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	4	3	4	4	3	4	**13**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	4	3	4	4	4	5	**14**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	4	3	4	5	4	5	**15**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	4	4	5	5	4	6	**17**	12
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	3	3	3	3	3	3	**3**	3

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.

Table 8.Moldova: Sensitivity Analysis for Key Indicators of Public Debt--Transnistria 2011-2031

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	26	25	24	23	22	20	44	21
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	25	23	21	19	18	41	18
A2. Primary balance is unchanged from 2011	26	26	26	26	26	25	54	39
A3. Permanently lower GDP growth 1/	26	26	26	26	26	27	67	87
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	26	29	33	35	37	39	80	72
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	26	27	28	27	25	24	47	23
B3. Combination of B1-B2 using one half standard deviation shocks	26	27	27	28	28	29	62	47
B4. One-time 30 percent real depreciation in 2012	26	33	31	29	28	26	52	31
B5. 10 percent of GDP increase in other debt-creating flows in 2012	26	35	33	32	30	28	50	25
PV of Debt-to-Revenue Ratio 2/								
Baseline	69	66	63	60	56	53	121	63
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	69	65	60	56	51	46	114	54
A2. Primary balance is unchanged from 2011	69	69	68	68	67	66	149	119
A3. Permanently lower GDP growth 1/	69	68	67	68	68	70	184	262
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	69	75	85	91	96	102	219	218
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	69	72	74	70	66	62	129	69
B3. Combination of B1-B2 using one half standard deviation shocks	69	70	70	73	74	75	170	143
B4. One-time 30 percent real depreciation in 2012	69	86	81	77	72	68	142	95
B5. 10 percent of GDP increase in other debt-creating flows in 2012	69	92	87	83	78	74	138	75
Debt Service-to-Revenue Ratio 2/								
Baseline	11	10	9	9	8	8	16	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	10	9	9	8	8	16	13
A2. Primary balance is unchanged from 2011	11	10	9	9	8	9	18	18
A3. Permanently lower GDP growth 1/	11	10	10	9	8	9	20	29
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	11	10	11	10	10	11	23	27
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	11	10	10	9	8	9	17	14
B3. Combination of B1-B2 using one half standard deviation shocks	11	10	10	9	9	9	19	20
B4. One-time 30 percent real depreciation in 2012	11	10	11	10	9	10	22	21
B5. 10 percent of GDP increase in other debt-creating flows in 2012	11	10	10	10	9	9	18	15

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.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Reviews Under the Extended Credit Facility and the Extended Fund Facility Arrangements with Moldova, Approves US$79 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the third reviews of Moldova's economic performance under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangements. The blended financing arrangements under the ECF and the EFF for an amount equivalent to SDR 369.6 million (about US$586 million) were approved on January 29, 2010 (see Press Release No.10/21). The completion of the third reviews makes an amount equivalent to SDR 50 million (about US$79 million) immediately available for the authorities. The Executive Board also approved the authorities' request for modification of performance criteria on the National Bank of Moldova (NBM) net international reserves and net domestic assets for end-September 2011 and end-March 2012 in light of the stronger-than-expected external inflows, the increased reserve requirement ratio, and the upwardly revised growth/money demand outlook. The Executive Board's decision was taken on a lapse of time basis, effective July 13, 2011.[1]

Moldova's economy has essentially completed its recovery from the 2009 recession, and the outlook is positive. Robust growth continued into 2011, spurred by brisk domestic demand and very strong exports. Core inflation remained contained, despite some pressure from higher energy prices on headline inflation.

The program is on track to restore fiscal sustainability by 2012 as planned. Fiscal policy appropriately focuses on rationalizing current expenditure, while safeguarding spending on priority

[1] The Executive Board takes decisions under its lapse of time procedure when the Board agrees that a proposal can be considered without convening a formal discussion.

investment and social assistance to the most vulnerable. Fiscal consolidation will be further supported by comprehensive tax policy and administration reforms in 2012 and beyond.

The recent tightening of monetary policy has anchored inflation expectations in the face of rising energy prices and domestic demand. Further tightening may need to be considered if the effect of higher energy prices spills over to core inflation or domestic demand accelerates further. The NBM's planned increase in foreign reserves is also appropriate in response to the higher-than-projected influx of foreign exchange from recovering remittances and capital inflows.

Conditions in the financial sector continued to improve with banks showing stronger profits and declining nonperforming loans. The completion of the frameworks on crisis preparedness and debt resolution will enhance financial stability and promote financial intermediation. The arrangement between the authorities and commercial banks on sharing the costs related to the failed Investprivatbank is welcome.

Comprehensive reforms are needed to restore financial sustainability in the energy sector. The establishment of efficient pricing and payment mechanisms will support cost recovery and contain the accumulation of new debt. Improving the business climate and promoting exports are essential to sustain strong growth in the medium term. The removal of trade barriers and divestment of state enterprises are important steps in that direction.