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

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The following item is a Letter of Intent of the government of Republic of Moldova, which describes the policies that Republic of Moldova intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Republic of Moldova, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

June 30, 2008

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

Dear Mr. Strauss-Kahn:

1. The attached Memorandum is an update to the previous Memorandum of Economic and Financial Policies (MEFP) for 2008. It lays out policies and measures that we deem necessary to implement in the remainder of this year to achieve core objectives of the program, which are consistent with our National Development Strategy (NDS) as well as our prior engagements with the European Union. We request the support of the International Monetary Fund under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF).
2. The overarching objective of the government and the National Bank is to improve well-being of population by promoting sustainable growth and reducing poverty. To this end, the policies set forth in the attached memorandum aim at ensuring macroeconomic stability and financial sector development, improving the business environment, including through reduction of the footprint of the state in the economy, and strengthening the social safety net. In addition, in consultation with the Fund, we will take additional measures that may become appropriate for reaching these objectives.
3. We hereby request completion of the fourth review under the PRGF arrangement and a waiver for non-observance of the end-March performance criterion on adopting legislation on the State Tax Inspectorate, which has been approved by the new Government on its first meeting of the Cabinet on April 2 and approved by Parliament on June 27, 2008. All other performance criteria as well as prior actions for this review have been met.
4. We will communicate to the IMF the information needed to monitor progress in implementing the program, and will conduct discussions with the Fund for the fifth review

under the PRGF arrangement. We anticipate that the fifth review will be conducted based on end-September 2008 data and be completed no later than end-January 2009. The Sixth and the final review under the PRGF arrangement will be based on end-March 2009 data, to be completed by end-June 2009. Before that we will hold intensive consultations internally as well as with the Fund regarding a possible successor arrangement.

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

Sincerely yours,

_____/s/
 Zinaida Greceanii
 Prime Minister
 Government of the Republic of Moldova

_____/s/
 Mariana Durllesteanu
 Minister
 Ministry of Finance

_____/s/
 Leonid Talmaci
 Governor
 National Bank of Moldova

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

UPDATE TO MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2008

June 30, 2008

A. Introduction

1. The present document updates the Memorandum of Economic and Financial Policies (MEFP) drafted by the authorities of the Republic of Moldova on February 19, 2008, to account for recent macroeconomic developments. We remain committed to meet our obligations assumed previously under the program.

B. Recent Developments

2. Despite relatively good performance in the face of the successive shocks suffered during 2006-07, macroeconomic stabilization and growth recovery remain major challenges for 2008. Growth prospects remain positive, although the global slowdown is expected to moderate the recovery with real GDP growth estimated at no less than 6½ percent in 2008. Demand, driven by strong investor interest in Moldova, has been stronger than expected. The current account deficit is estimated to have widened to 17 percent of GDP in 2007, but remains more than covered by long-term capital. Inflationary pressures are also stronger than expected, with annual inflation reaching 16.2 percent in May 2008. While this partly reflects food and energy price inflation in the region, with a strong imported component, core inflation has also edged up, compromising the objective of achieving single digit inflation by end-2008. Strong inflows of foreign exchange and the global weakening of the US dollar continue to put pressure on the leu, which has appreciated by 4.5 percent against the Euro since the beginning of the year.

C. Performance under the Program

3. The Government and the NBM have implemented the measures under the MEFP of February 19, 2008. With only one exception, all end-March quantitative performance criteria and indicative targets have been observed, some with a margin. Chisinau municipality failed to pay heating subsidies to the utilities resulting in a build-up of about 0.3 percent of GDP in payment arrears, inconsistent with the indicative target on non-accumulation of domestic arrears.

4. On structural reforms, the following actions have been completed by end-March:

- a. Exclusion of all licensed entities regulated or supervised by NBM and/or NCFM from the provisions of Law #235 on the key principles of regulating entrepreneurial activity was achieved by making changes to the Law in

article 1 with the sentence reading as follows: "This law does not apply to the entrepreneurial activity in the financial domain (banking and non-banking)." The law containing the aforementioned amendments was voted by Parliament and published on 14 March, 2008 (Law #279);

- b. With a view to subsequently privatize the state-owned Banca de Economii JSC, the Government of the Republic of Moldova announced a tender in Financial Times for a privatization advisor on March 28, 2008;
- c. On 2 April 2008, during the first sitting in its new composition, the Government approved two draft legislative acts on (i) granting to the Main State Tax Inspectorate the right to write off uncollectible tax arrears and (ii) transfer of all functions of tax control, tax assessment and tax collection to MSTI; the drafts were accordingly reviewed and approved by the legislature on June 27, 2008;
- d. The law on licensing was amended on March 14, to exclude explicitly financial institutions currently licensed by the NBM and the NCFM.
- e. In view of enhancing the capacity of carrying out analysis and research of monetary policy promoted by NBM, the NBM's Department of Monetary Policy and Research was restructured by 1 January 2008;
- f. The monetary policy of the NBM for 2008 envisages that the base rate shall be approved by the Administrative Council of the NBM as a reference base and shall serve as the maximum rate for liquidity sterilization operations and, accordingly, as a minimum rate for banks' refinancing operations. During its sitting of 31 January 2008 the Administrative Council of the NBM decided that the base rate shall apply to the main operations making part of short-term monetary policy.
- g. The quantitative restrictions on meat and dairy products were removed as of May 23, 2008.
- h. The outstanding stock of NBM claims on the government has been fully securitized and converted into tradable papers.

D. Objectives under the Program

5. Our overall objectives—wellbeing of population and progress of society—remain as outlined in the Government’s Action Plan. We believe that the Action Plan—together with the NDS—form a firm foundation for our future integration with the European Union. Macroeconomic stability and enhancing efficiency of public service are the paramount conditions for the successful implementation of these objectives.

6. For successful implementation of the program, we believe that four main issues need to be addressed:

- Strengthening monetary policy implementation to dampen growing demand pressures and resume disinflation;
- Ensuring that fiscal policy provides strong support for disinflation, while preserving the overall development objectives set out in the 2008 budget;
- Establishing a firm mechanism to maintain heating tariffs at cost recovery in the face of higher imported energy costs, and to put the sector on a sound financial footing, including settlement of outstanding arrears.
- Implementing a targeted social assistance system to protect the most vulnerable, facing higher food and energy prices.

E. Resuming Disinflation

7. **The main burden for disinflation remains on the National Bank of Moldova (NBM).** With demand pressures stronger than expected in the face of strong capital inflows, the NBM is taking the following actions to reestablish disinflation:

- **Tighten the monetary policy stance through the NBM’s sterilization operations.** For this purpose, the interest rate on sterilization operations was raised to ensure that the policy rate is kept substantially positive in real terms until disinflation is well-entrenched. Moreover, the NBM stands ready to further increase interest rates should this prove insufficient to reverse the trend inflation.
- **Improve monetary transmission through an increase in reserve requirements.** In order to reduce excess liquidity, on May 23, 2008 the NBM took a decision to increase reserve requirements to 22 percent.
- **Maintain a flexible exchange rate regime.** If inflows of foreign exchange persist, the NBM will only intervene to smooth excessive fluctuations in the leu, while allowing markets to determine the appropriate exchange rate.
- **The NBM will strengthen its operational capacity and communications strategy to better manage inflationary expectations.** In this process we hope to benefit from the long-term resident advisor that has recently been appointed by the Fund.

8. **In light of higher food and energy prices, the reserve money path has been adjusted to achieve a target of reducing inflation below 12 percent by end 2008, and single digits in 2009.** Consistent with this program, we expect foreign exchange reserves to reach USD 1.7 billion or at least 3.1 months of prospective imports by the end of 2008.

9. **Fiscal policy will remain tight in 2008 to support disinflation and build confidence in the program.** The budget has been rectified to tighten the fiscal position through revenue overperformance to achieve a balanced budget for 2008, while raising spending to allow implementation of the new social assistance scheme starting October 1, 2008, and provide room for higher investment. Any future budget rectification will be discussed in the framework of the fifth review. Our priority is to channel overperformance to investments, which have a minimal inflationary impact. With privatization proceeds projected to be substantially higher than expected in 2008, the government is planning the establishment of an investment fund that will be fully integrated into the fiscal framework. To help avoid a repeat of the spending overruns in early 2008, we will strengthen capital budgeting and bring forward the introduction of zero-balancing for spending units to improve treasury controls.

F. Restoring the Finances of the Heating Sector

10. **Heating tariffs continue to be under pressure from rising costs.** In breach of earlier commitments, and the Civil Code, the municipality of Chisinau introduced a retroactive tariff of 456 lei for the period of December 4 to April 14, while setting a cost tariff of 540 lei from April 14. This decision is being contested in court. Being concerned that the situation may endanger the whole energy system of the country, the government will take measures through the creditors' committee to encourage Termocom to propose an independent mediator to Chisinau council who will assist the parties in obtaining a mutually acceptable and sustainable solution to the tariff dispute.

Table 1. Prior Actions, Performance Criteria and Structural Benchmarks

Measure	Due	Status	Note
Proposed prior actions			
Rectify the general government budget, to achieve a zero deficit in 2008, as agreed in MEFP Table 3.			Budget rectifications were passed in first reading on June 30, 2008. Second reading is scheduled for July 4.
The decision by Chisinau municipality, which reintroduced a tariff for heating of 456 lei for the period of December 4 to April 14, will be contested in courts.		Observed	
Termocom will propose a mediator to the Chisinau council as described in the MEFP.		Observed	The formal proposal by Termocom was sent on June 13, 2008.
Performance criteria			
Neither government nor the NBM will provide preferential treatment to Banca de Economii (whether the tax treatment, access to general government deposits, or prudential forbearance).	Continuous	Observed	
Announce tender for privatization advisor to Banca de Economii.	31-Mar-08	Observed	The tender was announced in the FT on March 28, 2008.
Adoption of legislation to (i) give the STI the right to write-off uncollectible tax arrears and (ii) shift all tax audit, assessment, and collection powers to STI.	31-Mar-08	Not observed (implemented with delay)	The legislation was passed on June 27, 2008.
Adopt a new Licensing Law to exclude all entities licensed, regulated and supervised by the NBM and/or the NCFM from its provisions.	31-Mar-08	Observed	The Licensing Law was passed on March 14, 2008.
Sign the contract with the privatization advisor for Banca de Economii with a six-month time frame for bringing the bank to market.	30-Sep-08		
Structural benchmarks			
Heat tariffs received by utilities remain at cost recovery. A lower tariff than provided by ANRE methodology would imply new domestic expenditure arrears under the program.	Continuous	Observed	
Outstanding stock of NBM claims on government fully securitized.	31-Mar-08	Observed	
Introduction of a system whereby the State Treasury ensures that the balances in commercial banks of the social insurance budget (BASS) and the mandatory health insurance fund are zero-ed out on a daily basis.	30-Jun-08		
Remove quantitative restrictions on imports of meat and dairy products.	30-Jun-08	Observed	Import restrictions were lifted on May 23, 2008.
Introduce the targeted social assistance system throughout Moldova.	30-Sep-08		
The government approval of a draft law, which will consolidate all forms of remuneration in base pay for civil servants, with a view to implementing it in the 2009 budget year.	30-Sep-08		
Selection of an advisor through an open tender to assess the modalities for the possible privatization of Moldtelecom.	30-Sep-08		
Reduce public employment by 3000 people.	31-Dec-08		

Table 2. Moldova: Quantitative Performance Criteria and Indicative Targets, December 31, 2007–March 31, 2009 1/ 2/

	31-Dec-07		31-Mar-08		30-Jun-08			30-Sep-08		31-Dec-08		31-Mar-09
	Actual	EBS/08/22	Actual	EBS/08/22	Rev.	EBS/08/22	Rev.	EBS/08/22	Rev.	EBS/08/22	Rev.	Proposed
1. Quantitative performance criteria												
	(In millions of lei unless noted otherwise)											
Floor for general government fiscal balance	-134	150	...	0	0	-100	0	-284	0	0	0	0
<i>Adjusted floor for general government fiscal balance 3/</i>	-485	242	277
Ceiling on net domestic assets of the NBM (level)	-5,301	-5,713	-6,130	-6,422	-6,110	-7,363	-7,121	-8,717	-8,238	-8,831	-8,831	-8,831
Floor on net international reserves of the NBM (level)	14,882	15,359	15,495	16,403	16,282	17,917	18,410	20,160	20,278	21,292	21,292	21,292
Ceiling on contracting or guaranteeing of non-concessional external debt of the general government (Euro million)	60	9	9	9	9	9	9	9	9	9	9	...
EBRD/EIB road project	60	0	0	0	0	0	0	0	0	0	0	...
CEB health loan	0	0	9	9	9	9	9	9	9	9	9	...
Other	0	9	0	0	0	0	0	0	0	0	0	...
2. Continuous performance criteria												
Ceiling on accumulation of external payment arrears	0	0	0	0	0	0	0	0	0	0	0	0
	(In millions of lei)											
3. Indicative targets												
Ceiling on reserve money (level)	9,537	9,646	9,364	9,981	10,172	10,555	11,289	11,443	12,040	12,461	12,461	12,461
Ceiling on change in domestic expenditure arrears of the general government	150	0	200	0	150	0	100	0	0	0	0	0
Ceiling on the general government wage bill	4,876	1,286	1,229	2,714	2,658	4,138	4,138	5,517	5,517	1,617	1,617	1,617
	(In millions of lei, unless noted otherwise)											
4. Baseline assumptions												
Concessional external debt financing	603	170	78	350	350	591	583	808	800	63	63	63
in millions of dollars	53	15	7	31	33	53	55	73	77	6	6	6
Privatization receipts	407	50	184	90	224	110	274	131	340	110	110	110

Sources: Moldovan authorities; and Fund staff estimates.

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

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

3/ Adjuster applies to March 31, 2008 whereby if disbursements of external debt exceed the program assumptions, the limits on the overall cash deficit of the general government will be increased by the corresponding amount up to a cumulative cap of MDL 200 million. In the case of shortfalls, the limits will be decreased by the full amount.

Table 3. Moldova: General Government Budget, 2008
(In millions of lei; unless otherwise indicated)

	2008
	Proj.
Revenues and grants	24,552
Revenues	21,968
Tax revenues	20,597
Profit tax	674
Personal income tax	1,534
VAT	8,892
Excises	1,547
Foreign trade taxes	1,018
Other taxes	419
Social Fund contributions	5,299
Health Fund contributions	1,214
Non-tax revenues	1,371
NBM profit transfers	0
Grants	1,101
Budget support grants	647
Foreign financed projects grants	454
Revenues of special funds	1,483
Expenditure and net lending	24,552
Current expenditure	19,531
Wages	5,517
Goods and services	5,293
<i>of which: Health Fund</i>	2,685
Interest payments	740
Domestic	582
Foreign	159
Transfers	7,981
Transfers to economy	1,131
Transfers to households	6,850
<i>of which: Social Fund</i>	6,315
Other current expenditure	0
Net lending	-66
Capital expenditure	5,087
Statistical discrepancy	...
Overall balance (cash)	0
Primary balance (cash)	740
Change in arrears (+, increase)	0
Overall balance (commitments)	0
Financing	0
Budget financing	-698
Central government	-838
Net domestic	-745
Net foreign (excl. project loans)	-292
Privatization	200
Financing gap	0
Local governments	140
<i>of which: privatization</i>	140
Social Fund	0
Health Fund	0
Project loans	699
<i>Memorandum items:</i>	
GDP (billions of lei)	62.8
Augmented deficit 1/	...
General government debt (billions of lei)	12.5
<i>of which: external debt</i>	9.0

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

1/ Includes lei 250 mln of NBM recapitalization in 2006.

TECHNICAL MEMORANDUM OF UNDERSTANDING

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

I. PROGRAM ASSUMPTIONS

2008

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

II. Reporting Requirements

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

III. PROGRAM TARGETS AND DEFINITIONS

Floor on the Stock of Net International Reserves (NIR)
(In millions of lei)

Position on	Minimum Levels
March 31, 2008	15,602 (actual)
June 30, 2008	16,282 (indicative target)
September 30, 2008	18,410 (performance criterion)
December 31, 2008	20,278 (indicative target)
March 31, 2009	21,292 (indicative target)

4. **Net international reserves of the NBM** in convertible currencies are defined as gross reserves minus reserve liabilities in convertible currencies. For program monitoring purposes, gross reserves of the NBM are defined as monetary gold, holdings of SDRs,

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

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

Position on	Maximum level NDA	Maximum level Reserve Money (Indicative target)
March 31, 2008	-6,238 (actual)	9,364 (actual)
June 30, 2008	-6,110 (indicative target)	10,172
September 30, 2008	-6,975 (performance criterion)	11,435
December 31, 2008	-8,129 (indicative target)	12,149
March 31, 2009	-8,717 (indicative target)	12,575

5. **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.

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

7. **Net foreign assets of the NBM** are defined as gross reserves in convertible currencies (defined in paragraph 4) plus foreign assets in nonconvertible currencies, funds disbursed by the World Bank or other international institutions assigned for on-lending and project implementation, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets, and net other foreign assets, minus foreign exchange liabilities of the NBM to nonresidents.

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

	Cash balance
<hr/>	
Cumulative change from December 31, 2007	
March 31, 2008 (actual)	276
June 30, 2008 (indicative target)	0
September 30, 2008 (performance criterion)	0
December 31, 2008 (indicative target)	0
March 31, 2009 (indicative target)	0

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

9. The **quarterly limits on the overall cash deficit of the general government** are cumulative and will be monitored **from the financing side** as the sum of net credit of the banking system to the general government (excluding the change in the stock of government securities issued to recapitalize the central bank), the general government's net placement of securities outside the domestic banking system, other net credit from the domestic non-banking sector to the general government, the general government's receipt of disbursements from external debt² for direct budgetary support and for specific projects minus amortization paid, and privatization proceeds stemming from the sale of the general government's assets, after deduction of the costs directly associated with the sale of these assets.

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

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

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

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

	Indicative Target
<hr/>	
Cumulative change from December 31, 2007	
March 31, 2008 (actual)	1,229
June 30, 2008	2,714
September 30, 2008	4,138
December 31, 2008	5,517
March 31, 2009	1,617

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

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

³ For the calculation of the total general government wage bill the following accounts for central government, local government, and special funds from the Treasury system in the Ministry of Finance will be used: 111, 112, and 116.

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

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

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

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

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

15. **Concessional** will be calculated using currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs). The ten-year average of CIRRs will be used as the discount rate to assess the concessional of loans of an original maturity of at least 15 years, and a six-month average of CIRRs will be used to assess the concessional of loans with original maturities of less than 15 years. To both the ten-year and six-month averages, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–30 years; and 1.25 percent for over 30 years. Under this definition, only loans with a grant element

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

equivalent to 35 percent or more will be excluded from the borrowing limits. The debt limits will not apply to loans classified as international reserve liabilities of the NBM.

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

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

IV. ADJUSTERS

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

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

Item	Periodicity
Fiscal data (to be provided by the MoF)	Monthly, within three weeks of the end of each month
General budget operations for revenues, expenditure and financing (functional and economic)	
General government wage bill	Monthly, within three weeks of the end of each month
Domestic debt	Monthly, within two weeks of the end of each month
Domestic arrears	Monthly, within three weeks of the end of each month
Privatization receipts received by the budget (in lei and foreign exchange, net of divestiture transactions costs)	Monthly within three weeks of the end of each month
Monetary data (to be provided by the NBM)	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
Balance of Payments (to be provided by the NBM)	
Current and capital account data.	Quarterly within six weeks of the end of each quarter
Transfers/remittances through the banking system	Monthly within six weeks of the end of each month
External debt data (to be provided by MoF)	Monthly within three weeks of the end of each month
Information on all new external loans contracted by the government or government guarantee.	

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