INTERNATIONAL MONETARY FUND
RESIDENT REPRESENTATIVE IN MOLDOVA

PRESS STATEMENT

December 16, 2000

IMF Approves in Principle Loan of US$142 Million for Poverty Reduction and Growth in the Republic of Moldova

The Executive Board of the International Monetary Fund yesterday approved in principle a three-year loan under the Poverty Reduction and Growth Facility (PRGF)[1] in an amount equivalent to SDR 110.88 million (about US$142 million) to support the government's economic program.

A final decision by the IMF Executive Board is pending discussion of Moldova's interim Poverty Reduction Strategy Paper (I-PRSP) by the World Bank Executive Board, which is expected to take place on December 19, 2000. The first quarterly disbursement of SDR 9.24 million (about US$12 million) under the new program will become available when the final decision is made by the IMF Executive Board.

Following the IMF's Executive Board discussion, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman, said:

"Moldova's economic program for the next three years aims to achieve sustainable economic growth and poverty reduction, as well as to address issues related to the country's large stock of external debt.

"Forceful and sustained structural reforms to improve the business climate and stimulate both domestic and foreign investment will be crucial in achieving these objectives, as will the maintenance of financial stability. The authorities' program provides a solid framework for the needed policies.

[1] On November 22, 1999, the IMF's concessional facility for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), was renamed the Poverty Reduction and Growth Facility (PRGF), and its purposes were redefined. It was intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a poverty reduction strategy paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. At this time for Moldova, pending the completion of a PRSP, a preliminary framework has been set out in an interim PRSP, and a participatory process is underway. It is understood that all policy undertakings in the interim PRSP beyond the first year are subject to reexamination and modification in line with the strategy that is to be elaborated in the PRSP. Once completed and broadly endorsed by the Executive Boards of the IMF and World Bank, the PRSP will provide the policy framework for future reviews under this PRGF arrangement.
PRGF loans carry an annual interest rate of 0.5%, and are repayable over 10 years with a 5½ year grace period in principal payments.

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Structural policies will include the privatization of wineries and the state-owned telecommunications company, the restructuring or liquidation of companies with large arrears to the budget, and the development of the legal framework. Regarding financial policies, the pillars of the fiscal program are to maintain a primary budget surplus in order to stabilize, and subsequently reduce, the debt burden and to pay down wage and pension arrears. Increased revenue collection will be essential in achieving these goals while also allowing a strengthening of social expenditure programs.

"The authorities have prepared a comprehensive interim Poverty Reduction Strategy Paper, which provides a sound basis for the development of a full PRSP and concessional support from the Fund under the Poverty Reduction and Growth Facility. Achieving sustainable economic growth through the implementation of sound financial policies and structural reforms, greater social protection, and policies aimed at human development, as well as an effective strategy to ensure an inclusive participatory process will be important elements of Moldova's poverty reduction strategy."

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Program Summary

The economic situation remained difficult in Moldova in 1999 and 2000: Moldova was hard hit by the Russian crisis of 1998, and a drought and rise in energy prices adversely affected output in 2000. Early indications are, however, that the output decline is bottoming out and growth appears to be within reach.

Moldova's new economic program focuses on policies that would help the country achieve sustainable economic growth and reduce poverty, and reduce the country's high external debt burden. For a small, open economy such as Moldova that has no energy resources of its own, this will require strengthening the export sector and promoting greater efficiency in the use of energy. Key to achieving these goals will be an increase in investment, both domestic and foreign. Stimulating investment will require the continuation of sound financial policies and an acceleration in implementing structural reforms to improve the business climate.

The program anticipates that Moldova's recovery will be led by strong export growth, as it regains the ground lost in traditional export markets following the Russian crisis. Aided by the implementation of sound polices under the program, real GDP growth is projected to reach 5 percent in 2001, increasing to 7 percent in 2003, compared with zero growth in 2000 and –4.4 percent in 1999. Inflation is targeted at about 10 percent in 2001, from about 20 percent in 2000, and about 44 percent in 1999. Strengthening of international reserves is programmed for the equivalent of 3.1 months worth of imports in 2001, compared with 2.6 months worth in 2000 and 2.9 months in 1999.

Consistent with program objectives, **fiscal policies** aim at achieving a primary budget surplus (excluding foreign-financed projects) over the coming years of at least 2 percent of GDP to stabilize and subsequently reduce the debt burden; increasing revenue collection; and paying down wage and pension arrears. The Moldovan parliament adopted a budget for 2001 consistent with these objectives on November 30, 2000. **Monetary policy** will aim at reducing inflation, as well as at further reconstitution of international reserves to the equivalent of over 3 months of imports.

Structural policies under the PRGF-supported program will focus on areas that are critical to the realization of the program's macroeconomic objectives, including the privatization of wineries and the state-owned telecommunications company, the restructuring or liquidation of companies with large arrears to the budget, and the development of the legal framework.

The authorities wish to emphasize **poverty reduction** in their economic program, given the sharp deterioration in living standards in the past decade. In the authorities' interim PRSP, prepared in collaboration with the IMF and World Bank staffs, the strategy is founded on three pillars. First and foremost, poverty reduction will depend on economic growth and the creation of productive investment and employment opportunities. The second pillar is greater social protection, which will be achieved by increasing the efficiency and equity of the social safety net and ensuring its fiscal sustainability. The third pillar focuses on human development by increasing access to and improving the quality of basic public services, such as primary health care and education.

The Republic of Moldova became a member of the IMF on August 12, 1992; its quota[2] is SDR 123.20 million (about US$ 159 million), and its outstanding use of IMF credit currently totals SDR 86.56 million (US$ 112 million).

[2] A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.

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Republic of Moldova: Selected Economic Indicators, 1997-2003

	1997	1998	1999	2000	2001	2002	2003
1. Gross Domestic product							
Real growth rate (percent change)	1.6	-6.5	-4.4	0.0	5.0	6.0	7.0
Nominal GDP (in billions of lei)	10.12	10.37	13.71	17.53	20.57	23.99	28.23
Nominal GDP (in U.S. dollars)	2.19	1.93	1.30	1.41	1.60	1.78	2.00
2. Inflation (CPI, percent change)							
Year-on-year	11.8	7.7	39.3	31.3	13.5	10.0	10.0
End-of -period	11.1	18.2	43.8	19.4	10.0	10.0	10.0
3. General government			(In percent of GDP)				
Revenues	33.9	33.1	27.3	26.6	26.1	25.9	25.7
Expenditures	40.3	43.7	32.6	29.4	29.6	28.9	28.5
Balance (commitments)	-6.4	-10.6	-5.3	-2.8	-3.5	-3.0	-2.8
Balance (excluding project financing)	-6.3	-8.6	-2.6	-1.1	-1.8	-1.5	-1.0
4. Monetary indicators							
Reserve money (percent change)	31.5	-5.6	41.4	31.4	17.0	16.0	15.0
Broad money (M3; percent change)	34.1	-8.7	32.9	42.5	20.0	22.7	25.2
Velocity (M3, end-of period)	5.5	5.5	5.5	4.9	4.8	4.6	4.3
5. Exchange rates			(Lei per U.S. dollar)				
Period average	4.62	5.37	10.52	…	…	…	…
End-of-period	4.66	8.32	11.57	…	…	…	…
6. External indicators		(In millions of U.S. dollars, unless noted otherwise)					
Exports of goods	890	644	469	495	571	654	760
Import of goods	1,237	1,032	597	763	822	901	1,021
Current account balance	-274	-323	-34	-110	-111	-108	-116
In percent of GDP	-12.5	-16.7	-2.6	-7.8	-6.9	-6.1	-5.8
Gross international reserves	366	140	181	206	257	286	369
In months of imports of GNFS	3.1	1.4	2.9	2.6	3.1	3.1	3.5
Public and publicly guaranteed debt	1,080	1,089	936	1,039	1,190	1,181	1,211
In percent of GDP	49.3	56.4	71.8	73.9	74.2	66.5	60.6

Sources: Moldovan authorities; and IMF staff estimates.

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