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Republic of Moldova—Recent Economic Developments

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INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

Recent Economic Developments

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June 6, 1995

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I. Background 1/

1. Introduction

Moldova is a small landlocked country bordered by Ukraine to the north, east, and south, and by Romania to the west. Covering an area of roughly 33,800 square kilometers and with an estimated population of 4.4 million (as of January 1, 1994) its population density is high (Table 1). The majority of the population is Romanian speaking (65 percent); Ukrainians (14 percent), Russians (13 percent), Gagauzi Turks (4 percent), Bulgarians (2 percent), and others (2 percent) account for slightly over one third of the population.

Moldova declared independence on August 27, 1991 and immediately began to establish relations with the international community. Moldova joined the International Monetary Fund (IMF) on August 12, 1992 and is a member of the United Nations, the International Bank for Reconstruction and Development (IBRD), and the European Bank for Reconstruction and Development (EBRD). Moldova is also pursuing membership in the World Trade Organization (WTO).

The Moldovan economy is concentrated in the production and processing of agricultural products. Since achieving independence, it has suffered a severe terms-of-trade shock as the price of imports of energy and other key inputs increased sharply. At the same time, exports to traditional markets have fallen because of lower incomes and economic dislocation in these markets. Ongoing monetary instability in the ruble area, meanwhile, led to payment difficulties and to disruptions in the supply of inputs. Real output has fallen sharply as a result with the estimated cumulative decline in real GDP since 1990 in excess of 60 percent (Table 2). 2/

The Moldovan authorities recognized the need for financial stabilization and economic restructuring at an early stage and, with the assistance of the IMF and other international organizations, identified a program of economic reforms designed to foster financial stabilization and the transition to a market-based economy. By end 1994, considerable progress was made towards the stabilization objective. To consolidate these gains and to secure the benefits of price stability on a lasting basis, the authorities adopted an ambitious target to contain inflation to a level broadly similar to that of the major industrial countries by end-1995.

1/ This report covers developments through end-1994. For developments in previous years, see SM/94/130.

2/ The output figures cited here are estimates prepared by the State Department of Statistics. The methodology for the compilation of national income accounts is under review and the figures should be considered as preliminary estimates.

2. Economic structure and institutions

Moldova has a comparative advantage in agriculture. It is richly endowed with fertile soil--approximately 75 percent of its area is covered by the rich black chernozem soil--and enjoys a temperate climate which makes it possible to raise a wide variety of crops. Agriculture is by far the most important sector of the economy, accounting for about 48 percent of gross domestic product (GDP) in 1994 (Table 3). ^{1/} The importance of agriculture to the Moldovan economy is enhanced by including the food-processing and agricultural wholesale industries.

Crops typically account for about two thirds of agricultural output with livestock production accounting for the remainder. The most important crop in Moldova is grapes, from which wine and fortified alcoholic beverages are made. Grape production typically accounts for 10 percent of the total value of agricultural production. Grains account for approximately 8 percent of the total value of agricultural production. Moldova is also a major producer of tobacco, sugar beets, sunflower seeds, and fruits and berries (Table 5).

Moldovan industry traditionally supplied markets in Russia and other neighboring countries with consumer goods such as carpets, refrigerators and freezers, washing machines, bicycles, tape recorders, radios, stereo systems, color televisions, and furniture. Some large state enterprises formerly supplied electrical motors and instruments for military uses; these firms have been particularly affected by a loss of orders. Industry accounted for 25 percent of total GDP in 1994. The remaining output shares are accounted for by the wholesale and retail sector (4 percent), construction (2 percent), transportation and communications (1 percent), and other service sectors.

As a result of the passive roles assigned to monetary and fiscal policies under central planning, the key institutions in these areas--particularly the Ministry of Finance and the central bank--lacked the technical capacity to design, monitor, and implement macroeconomic policies. Significant progress has been made in overcoming this legacy. A wide range of technical assistance provided by bilateral and multilateral institutions has contributed to a marked strengthening of these institutions. Further work is required, however, particularly in terms of enhancing the quality and coverage at the statistical base.

3. Economic reforms

The Government of Moldova identified an ambitious program of market-based economic reforms shortly after independence in 1991. Although a start was made in identifying the legal framework necessary to support a market

^{1/} The agriculture sector accounts for a slightly lower share (43 percent) of total net material product (Table 4).

economy, several factors impeded the reform process from an early date. In 1992, the country experienced a severe drought which resulted in substantial crop losses. The reform process also suffered a setback following the unilateral succession of the Transnistria region in 1992 and the outbreak of an armed conflict. 1/ The situation stabilized in 1993 with the cessation of hostilities, and the Transnistrian authorities and the Moldovan Government have since made efforts to minimize the disruption to economic relations between the two parts of the country. Nevertheless, the de facto semi-autonomous status of the Transnistria region has hampered the macroeconomic stabilization effort, largely owing to the lack of cooperation in custom administration and the potentially negative effects on foreign investment. 2/

Despite these difficulties, the Moldovan authorities persevered with economic reforms. Their efforts were supported by the international financial institutions, especially the IMF and the IBRD. In February 1993, the Executive Board of the IMF approved a purchase of resources equivalent to SDR 13.5 million under the compensatory and contingency financing facility (CCFF) to cover the costs associated with the need to import grains because of the drought and subsequent crop failure in Moldova. A World Bank Emergency Drought Recovery Project in an amount equivalent to US\$26 million was also approved in February 1993. The first purchase equivalent to SDR 22.5 million under the systemic transformation facility (STF) was made in September 1993. A second purchase equivalent to SDR 22.5 million was approved by the IMF Executive Board in mid-December 1993. A World Bank Rehabilitation Loan in an amount equivalent to US\$60 million to support the Government's reform program was also approved in October 1993.

The introduction of a national currency, the leu, was viewed as necessary to insulate the Moldovan economy from the continued instability of the ruble area. The program of financial stabilization and structural reforms implemented in conjunction with the introduction of the leu was supported by the IMF through a stand-by arrangement (SBA) in an amount equivalent to SDR 51.75 million that was approved in mid-December 1993. The program, which covered the period through March 1995, was designed to secure a stable leu through the adoption of tight financial policies. The program also sought to advance economic restructuring through the liberalization of the domestic and international trade and payments systems and the introduction of key structural reforms. In addition to IMF support, the program was supported by other bilateral and multilateral donors, including the World Bank through a US\$60 million Structural Adjustment Loan. The IMF

1/ Transnistria accounted for 14 percent of the total population in the 1990 census.

2/ Discussions concerning the possible economic reintegration of the Transnistria region intensified in late 1994 with the appointment of a committee of senior Moldovan and Transnistrian officials to discuss the modalities of reintegration. The work of this group is supplemented by periodic meetings of the respective political leaders.

Executive Board approved a purchase of Fund resources in an amount equivalent to SDR 12.2 million under the CCFF in December 1994 in response to a drought in the summer of 1994 and a series of natural calamities which damaged or destroyed many crops. ^{1/}

II. Real Sector Developments

1. Introduction

Important progress was made towards financial stabilization in 1994 under the IMF-supported financial program implemented by the Moldovan Government. Inflation declined significantly (Chart 1); monthly inflation fell from hyperinflation levels in 1993 to under 3 percent by year-end. The exchange rate of the leu broadly stabilized in nominal terms and appreciated sharply in real terms owing to the (initial) large inflation differential. Real interest rates were positive by wide margins throughout the year as the NBM persevered with tight credit policies. The improved price performance and the relative stability of the leu in foreign exchange markets permitted nominal interest rates to decline through the second half of 1994.

These gains were achieved despite a marked deterioration in the real economy. The authorities estimate that real output declined by 30 percent. This reflects mainly the effects of drought (and other natural calamities) which led to a steep drop in most crop yields. The output decline was not limited to the agricultural sector, but extended also to the industrial sector. (The decline in industrial production is explained in part by a slowdown in the processing of agricultural production.) By year end, however, the level of industrial production stabilized and remained broadly stable through the first quarter of 1995.

2. Sectoral developments

The value of gross agricultural production in constant prices declined by 27 percent in 1994 (Table 5). This can be attributed to the effects of drought and other natural calamities. The value of crops declined by 31 percent in the period, with the production of maize, wheat and barley especially affected. The production of maize and wheat both fell by about 50 percent, while barley production declined by 64 percent (Table 6). Oilseeds (sunflowers and soybeans) were less affected by the poor growing conditions, although production levels were still about 25 percent below year-earlier levels. Both of these crops along with sugar beets, the production of which declined by 32 percent, are important inputs in the food processing sector. Grape production fell by 28 percent and this contributed to a further slowdown in the agricultural processing industry. The value of

^{1/} Flooding and hurricane-force winds resulted in some loss of life and substantial property damage. The expenditures incurred to rebuild economic infrastructures added additional fiscal pressures in the third and fourth quarters of the year. See the discussion below, Section IV.

Chart 1

MOLDOVA

Production, Inflation, and Energy Consumption

1/ Excluding production of private joint ventures and enterprises in the town of Bendery, beginning January 1994.

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livestock production fell by somewhat less--15 percent--despite a very substantial decline in herd and flock sizes through the early 1990s, as shortages of feed grains and a loss of profitability at higher feed prices led to the culling of herds. By year-end 1994, stocks of swine and poultry were about 40 percent below their 1990 levels (Table 7).

The share of agricultural production accounted for by private farms has grown steadily in current prices, from about 23 percent of total value added in 1990 to 37 percent in 1994 (Table 8). In constant 1983 prices, however, the share of private farms has actually fallen. This suggests that private farms have adjusted more rapidly than state farms or cooperatives to price liberalization.

The value of industrial production in constant prices declined 30 percent in 1994 (Table 9). The fall in industrial output was broadly based; all major industrial sectors contracted. In total, the value of production of heavy industry in constant prices has fallen by almost 60 percent since 1990. The decline in the heavy industry sector was broadly based: the production of tractors, refrigerators and freezers, and washing machines was all reduced significantly (Table 10). Much of Moldova's heavy industry is located in Transnistria, which accounts for the total production of large electric motors, power transformers, gas containers and slate (Table 11). The value of production in the light industry sector (textiles, clothing and leather and shoes) fell in constant prices by almost 50 percent. Reflecting the reduced crop yields in 1994, the value of food industry output declined about 21 percent in the year.

3. Price and labor market developments

a. Price liberalization

Moldova officially liberalized the prices of most consumer goods in January 1992. The prices of key food staples (bread and dairy products) as well as rents, trolley fares and utility charges remained subject to price controls, with the costs of production subsidized through the budget. The extent of the subsidy element was reduced substantially in several stages in late 1993 and the first half of 1994. In September 1993, the price of most varieties of bread were liberalized fully and the prices of the remaining bread still subject to controls were brought to roughly 50 percent of their production costs. Milk prices were raised to bring them to within 50 percent of cost. Milk prices were subsequently raised in January 1994 to bring them to 75 percent of the cost of production. Remaining subsidies on these foodstuffs were eliminated in June 1994. 1/

Following price liberalization, wholesale and retail prices were regulated indirectly by margin controls which limited the allowable mark-ups

1/ Prices for urban transportation, communal services and some rents remain subject to control.

to between 10 and 20 percent for food staples and consumer goods, respectively. Luxury goods were not subjected to margin controls. Imported goods are exempted at the wholesale level, but were subjected to margin controls at the retail level. Margins on wholesale and retail outlets were raised in October 1993, from 10 and 20 percent to 20 and 30 percent, for food products and consumer products respectively. The margins on all goods with limited exceptions were eliminated in early 1995.

b. Investment, employment and wages

Despite the severe contraction in real output and the steep decline of industrial production, official unemployment remained low in 1994. Enterprise managers appear to have responded to lower sales by producing for inventory, hoarding labor--incurring substantial wage arrears in the process--and by putting workers on unpaid leave. Firms have also responded to the decline in orders and production by sharply curtailing investment in fixed capital. Real fixed investment fell in excess of 50 percent in 1994 (Table 12). Real investment has fallen in real terms over the past five years, resulting in a marked aging of the capital stock and a concomitant decline in productive capacity. The aggregate investment figures also reveal that there has been an increase in investment in the housing stock. Housing has roughly doubled as a share of current investment since 1990, from 18 to almost 35 percent of total investment (Table 13). This can be attributed to the privatization of the housing stock and the distribution of land which have increased the attractiveness of housing.

The available information suggests that firms adjusted to the terms-of-trade shock and loss of markets by reducing investment in an attempt to maintain employment levels. Labor market developments in 1994 support this proposition. ^{1/} Fewer than 15 thousand persons were officially registered as unemployed at the beginning of the year (comparable to an unemployment rate of about 1 percent). Although this figure increased significantly through the year, to over 20 thousand workers by year-end, the rate of unemployment remained well below 2 percent. These figures exclude the number of workers on unpaid leaves and individuals on shortened work weeks, however. Over 36 thousand workers were on unpaid leave of a month or more, on average, in 1993. This increased to over 220 thousand individuals on unpaid leaves in excess of two months by end-1994. Including these individuals in the number of unemployed raises the unemployment rate to about 18 percent.

The discrepancy between changes in output and employment suggests that labor is relatively immobile. This may result from the provision of nonwage benefits by state enterprises, such as housing and social services, which tie workers to their firms despite long periods of unpaid leave. At the

^{1/} Although employment in industry has declined somewhat over the past several years, there is little labor market evidence of restructuring. See Tables 14 and 15.

same time, wages remained broadly stable in real terms over the course of the year (Chart 2). Average real wages have declined significantly since the early 1990s, however. Workers are frequently paid in-kind and must sell or exchange these goods for other goods and basic necessities. It is also common for enterprises to arrange barter transactions for the direct shipment of foodstuffs from agricultural processing plants and state farms for distribution to their employees in lieu of wages.

c. Inflation

Important progress toward price stability was made in 1994: The threat of hyperinflation receded early in the year as a result of tight monetary policies and by year-end, with the monthly rate of inflation under 3 percent, the Moldovan authorities adopted the ambitious target of achieving price stability--inflation broadly consistent with that in the major industrial countries--by year-end 1995. The success achieved by the Moldovan authorities in containing inflationary pressures can be directly attributed to tight monetary policy pursued by the NBM since the second half of 1993. The rate of inflation remained high through the fourth quarter of 1993 and the first quarter of 1994, however, despite the tight monetary policies of the NBM. Several institutional factors may account for this outcome: the reduction of subsidies on foodstuffs in September 1993, the pass through of higher import prices which resulted in a series of staggered increases in key administered prices, such as energy, statistical anomalies, and several factors associated with the introduction of the leu in November. ^{1/}

Inflation declined substantially through 1994, starting in the second quarter. This reflected the continuation of tight financial policies, the strengthened credibility of the program, and the resulting increase in the demand for leu. At the same time, the impressive performance through the summer months--prices actually fell slightly in August--can be attributed to seasonal factors, as food prices declined by 1.4 percent (Table 16). Inflation accelerated slightly in the fourth quarter, owing primarily to the loss of important crops but remained within the programmed target for the year as a whole. Price pressures continued to moderate through early 1995, as monthly inflation averaged under 2 percent in the first quarter and fell to 0.6 percent in April.

^{1/} There were concerns that the introduction of the leu scheduled for end-November would include confiscatory elements. As a result, individuals may have sought to insulate themselves from such measures by converting cash balances into goods and foreign exchange. The conversion rate of 1 leu to 1,000 Moldovan coupons and a subsequent shortage of small denomination coins may have resulted in a one-time-upward rounding of prices. See also Appendix I, SM/94/130, May 27, 1994.

4. Structural reforms

The authorities recognize that successful adjustment to the terms-of-trade shocks and loss of traditional export markets requires an acceleration of structural reforms. In support of this objective, the Government has begun to implement a program of measures which focuses on the disengagement of the Government from direct involvement in the economy and the fostering of market forces. The first element of this program is the establishment of the framework of legislation to support a market economy. Much of this was implemented by early 1994. 1/ Although these laws established key aspects of the legal basis for a market economy, much of the legislation remained untested in judicial proceedings and serious flaws in the legislation were identified in 1994. The law on bankruptcy is a prime example. Little progress was made during the course of 1994 in enforcing the bankruptcy provisions. Although a process for the identification of bankrupt state enterprises had been developed, the effectiveness of the measure was limited by the fact that bankruptcy was determined administratively, not by the creditors, and required the approval of the branch ministries to which the enterprises reported. These factors led to protracted delays in the initiation of bankruptcy proceedings and greatly weakened the effectiveness of other efforts to promote financial discipline. In view of these problems the authorities agreed to revise the legislation to make it conform with the needs of a market economy by, inter alia, permitting creditors to initiate bankruptcy proceedings. The revised legislation is to be prepared by end-May 1995 and is expected to be promulgated later in the year. 2/

Policies to promote the efficient use of land are of crucial importance to Moldova's long-term growth prospects. The objective of the Government's program of agrarian reforms is to give individuals an economic incentive to manage Moldova's land resources by increasing the role of private ownership. This will, it is hoped, boost the output capacity of the agricultural sector and promote the growth of private activity in supporting sectors. The first stage of land reform in which private ownership of household plots was granted to the families who used the plots was largely completed in early

1/ Legislation sanctioning private property, foreign investment, leasing, and private enterprises, as well as the legal basis for the privatization of state enterprises, bankruptcy proceedings, agrarian reform, the formation of joint-stock companies was implemented by Parliament in 1991-92. Legislation on the pledging of assets and the use of collateral and the legal framework for trusts and holding companies was promulgated in 1993 and early 1994.

2/ In early 1995, the Government started liquidation proceedings against five state-owned enterprises. Faced with the threat of closure, two firms found the resources to meet their current obligations. The assets of the remaining firms were sold in public auctions. An additional 15 enterprises are to be identified and liquidated by end-June 1995.

Labor Market and Privatization

1/ As of December 1994.

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1993. ^{1/} Private plots are an important source of grape production, with the owners selling their output to the collective farms. The second stage of the reform program--the transfer of shares of state and collective land to farm employees and pensioners--began in 1994. By year-end, almost 60 percent of all land identified for privatization had been transferred, primarily to agricultural cooperatives and joint stock companies.

The Government recognizes that the impressive gains made toward financial stabilization can best be secured on a lasting basis through measures to promote financial discipline in all sectors of the economy. At the same time, it views a dynamic private sector as the key to restoring the prospects for real growth. In conjunction with its land reform program, therefore, it has made a start on an ambitious program to transfer the ownership of capital to the private sector. Under the 1993/94 Privatization Program, the Government had targeted the sale of roughly 1,600 firms of all sizes. ^{2/} However, following the successful completion of two small-scale auctions in the fall of 1993, little progress was made in the sale of medium- and large-sized enterprises through most of 1994. Logistical problems which had earlier hampered the distribution of privatization vouchers only partly account for the slow pace of privatization, as the distribution of these vouchers was largely completed in early 1994.

Delays in privatization through most of 1994 are traced mainly to two factors. The first is the reluctance of enterprise managers to assist in the privatization process. In many instances, managers viewed privatization as a threat since it might lead to their dismissal or the closure of the firm. These individuals were able to delay the privatization process by failing to comply with the registration procedure. The second factor was the protracted political proceedings to approve the 1995/96 Privatization Program. Under the 1995/96 Program, some firms are to be sold for cash in auctions open to foreign investors while others are to be privatized through the voucher auctions. Managers of enterprises that had been identified for voucher auction used the political process to lobby for a change in status to cash auction. Owing to the extended parliamentary debate on the modalities of the 1995/96 Program, this had the effect of delaying the sale

^{1/} Although ownership of land prior to independence was concentrated in the Government, limited private ownership was permitted. All citizens were allowed to own land, with the size of the plot varying according to class and plot location: collective farmers in rural areas had the largest plots, of up to 0.2 hectares, state farm employees were allocated less, and workers and employees in urban areas were granted as little as 0.04 hectares. The size of private plots owned by farmers was increased significantly on January 1, 1992 under the reform program to 0.5 hectares per family, with an additional 0.1 hectare per fourth and subsequent family members up to a maximum of 1 hectare per family.

^{2/} This figure was subsequently reduced to about 1,400 enterprises by the merger and change of ownership statutes of a number of enterprises and by the exclusion of enterprises in Transnistria.

of a substantial number of enterprises. With the finalization of the broad outlines of the Program late in the year, however, the pace of privatization accelerated appreciably. By year-end, almost 200 medium- and large-size enterprises had been sold to the private sector, over three-quarters in the last two months of the year. Over 200 shops and other small enterprises were sold by end-1994. ^{1/} Following parliamentary approval of the 1995/96 Privatization Program in the first quarter of 1995, the Government indicated that it expected the bulk of all state enterprises to be transferred to the private sector by end-1995.

III. Monetary Developments

1. Introduction

Underlying the progress made towards financial stabilization in 1994 was the reversal of the lax monetary and fiscal policies that led to the acceleration of inflation through 1993. The strategy adopted by the authorities for 1994 sought to achieve a rapid deceleration of inflation and a strengthening of the external position through a sharp decline of the rate of growth of the monetary aggregates (Chart 3). The strategy also called for broad reforms to the institutional framework of monetary policy making including the elimination of preferential credits, the establishment of market-determined interest rates, the enhancement of NBM independence, and a strengthening of the role of the central bank in the prudential supervision of the banking system.

This strategy was implemented with remarkable consistency despite a number of unfavorable developments. The quarterly targets established by the NBM for the growth of its net domestic assets (NDA) position were met, often with comfortable margins. The growth of the reserve money and broad monetary aggregates was higher-than-envisaged over the year, however, owing to stronger-than-expected accumulation of foreign exchange. This outcome can be attributed to uncertainties about availability of foreign financing early in the year, which led to lower-than-envisaged sales of foreign exchange by the NBM, and to higher-than-envisaged inflows of foreign exchange, including a large one-time foreign currency deposit, that added to the accumulation of reserves.

2. Monetary and credit developments in 1994

a. Domestic credit developments

The successful implementation of the authorities' monetary strategy resulted in a significant decline in credit expansion during 1994. Net domestic assets of the NBM increased by 83 percent in 1994, compared to

^{1/} The combined outcomes of the small-scale and the medium- and large-size auctions represent roughly one-third of the total number of enterprises identified for sale in the 93/94 program.

Chart 3

MOLDOVA

Financial and Fiscal Indicators

1/ Average interest rate on a 3-month credit extended by the four largest banks.

2/ Adjusted by the current monthly inflation.

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350 percent in 1993, and actually declined in the last quarter of 1994 as a result of significant disbursements of foreign financing for the Government budget (Table 17). The Government relied almost entirely on NBM credit to meet its domestic borrowing requirements in 1994. Lending to Government declined as a share of NBM domestic credit, defined as the sum of net claims on Government and credit to banks, from 60 percent in 1993 to 47 percent in 1994. The relative share of NBM lending to banks, on the other hand, increased in 1994 to 53 percent of total NBM domestic credit compared with 40 percent in 1993. Lending to banks in 1994 thus replaced lending to Government as the main source of credit expansion.

The reversal of lax policies is reflected also in the behavior of aggregates in the banking sector (Table 18). Mirroring the slowing of growth of the balance sheet of the NBM, bank lending to the economy doubled in 1994, compared with a 645 percent increase in 1993. The distribution of bank credit between state enterprises and the private sector (comprising cooperatives, joint stock companies, and small private firms) was broadly stable with 73 percent going to state enterprises and 27 percent to the private sector, which reflected, in part, the slower-than-expected progress of privatization.

b. Domestic liquidity

Reserve money and broad money grew in 1994 by 128 percent and 116 percent, respectively, compared with 320 percent and 393 percent in 1993 (Table 19). Developments in the monetary aggregates during 1994 were dominated by a significant increase in currency in circulation which grew by almost 190 percent during the year. Several factors account for this development, including the remonetization of the economy following disinflation, increased circulation of the leu in Transnistria, the emergence of private sector activities that rely largely on cash transactions, and weakness in the banking system. Velocity stabilized early in 1994, as monetary conditions tightened and the rate of inflation moderated. The steep decline in monthly inflation through the second and third quarters enhanced the credibility of the monetary program and resulted in a decline in velocity.

Tight financial conditions also resulted in a decline in the growth of bank deposits, which increased by 77 percent in 1994 compared to 212 percent in 1993. The share of foreign currency deposits (FCD) in total deposits declined to about 10 percent at the end of 1994, down from 15 percent at the end of 1993. This probably reflected an increase in confidence in the leu (supported by the stable exchange rate and the rapid decline in inflation) and the increasing reliance on FCDs to finance current transactions rather than as a store of value.

c. Interest rate developments

A key element of the monetary strategy was the shift from administrative means to market forces in the allocation of credit. Since

November 1993, the NBM finance rate has been established by credit auctions (Table 20). The monthly interest rate established in the credit auctions increased significantly through late 1993 reaching a peak of 31 percent in February 1994. The auction rate dropped in March to 17 percent per month as inflation declined. It continued to decline steadily through the year reaching a monthly rate of 3.5 percent in December. Real interest rates, on the other hand, rose significantly in April and peaked in May as a result of a significant drop in inflation rate. Real rates remained positive by significant margins though they declined in the second half of the year as nominal rates continued to decline. However, an acceleration of inflation in the last quarter pushed the real rates to below 1 percent per month.

Commercial bank lending rates declined steadily during the year but remained extremely high in real terms. The spread between lending rates and the NBM auction rate increased in the first half of 1994, peaking in July at 20.4 percent on a monthly basis. The margin declined subsequently but stood at 5.8 percent at end-December reflecting, inter alia, the problem of nonperforming assets and the lack of competition.

d. Monetary policy instruments

As part of its strategy to enhance the role of market forces in credit allocation decisions, the NBM established the objective to have at least 80 percent of NBM credit expansion allocated through market auctions. This goal was not met, however. The NBM auctioned only about 70 percent of its credit resources owing to directed credit allocation in the last quarter of 1994 to finance reconstruction and assist the agricultural sector following a series of natural calamities. The NBM maintained its commitment not to extend credit at preferential terms and all other directed credit were extended at the NBM finance rate established at the auction.

Efforts to implement indirect monetary control were hampered by delays in the introduction of treasury bills. The NBM instead resorted to changes in the reserve requirement on bank deposits to tighten credit conditions and contain excess liquidity. On February 1, the NBM raised the reserve requirement on demand deposits by 8 percentage points (to 28 percent) and by 2 percentage points on time deposits (to 17 percent on deposits of up to one year, and to 15 percent for deposits from one to three years). By June 1994, as inflationary pressures receded, the NBM reduced the reserve requirements to their pre-February levels. On December 22, 1994 the NBM unified the reserve requirements on deposits to 12 percent of daily average deposits calculated bi-weekly.

On February 1, 1994 the NBM eliminated all remaining limits on interest rate margins applied to NBM credit on-lent to commercial banks, with the exception of loans guaranteed by the Government.

e. Banking supervision

The financial position of commercial banks weakened considerably during 1994. The tightening of credit conditions in 1994 combined with a poorly-defined and weakly-enforced regulatory regime combined to expose the weak financial position of the banking system. The earlier accumulation of bad debts resulted in a deficient capital position for most banks, with half of them actually being in negative capital position.

The authorities recognized the threat posed by a weak banking system, and initiated several steps to strengthen the commercial banks. The NBM ordered a full audit of the four largest banks (accounting for about 80 percent of total assets in the banking sector) and, in cooperation with the World Bank and the IMF, initiated a study to determine the capital position of the all commercial banks. An ambitious program to strengthen commercial banks was also adopted in late 1994. New loan classification and provisioning regulations were devised and are expected to be implemented in the first half of 1995. Banks are required to publish a monthly capital position statement starting in January 1995. At the same time, the NBM concluded a series of bilateral agreements with the most seriously undercapitalized banks. These agreements require these banks to bring their capital to positive levels by end-June 1995. To address the deficiencies in the regulatory framework, the authorities prepared, with assistance from the IMF, draft laws on central bank and financial institutions. The two new draft laws are expected to be implemented by mid 1995. Furthermore, the NBM strengthened its Banking Supervision department and made plans to establish a new Bank Resolution Unit to evaluate banks' recapitalization and restructuring plans.

f. NBM independence

The monetary program for 1994 was implemented by the NBM with considerable autonomy despite the absence of a clear institutional mandate establishing its independence. The degree of latitude enjoyed by the NBM during 1994 was instrumental in the success of the Government financial stabilization program. In return, the success of the financial stabilization program facilitated the political acceptance of NBM's operational autonomy. In this respect, the new Central Bank Law would, inter alia, strengthen the operational independence of the NBM and reinforce its ability to implement the monetary program with the aim of securing the benefits of price stability on a lasting basis.

IV. Fiscal Issues 1/

1. Introduction

The consolidated state budget in Moldova consists of the local budgets--with 10 cities and 44 districts--and the republican budget. Four of the cities and 4 of the districts are located in the Transnistria region. Since April 1991, normal fiscal relations, including reporting of fiscal data, between the republican budget and the cities and districts in the Transnistria have been disrupted, making it impossible to assess the fiscal situation there. In addition to the state budget, there were in 1994 seven extrabudgetary funds: the Social Security Fund (SSF), the Science Fund, the Military Conversion Fund, the Livestock Fund, the Capital Investment Fund, the Foreign Currency Fund, and the Social Assistance Fund (SAF). The SSF, the most important of the funds (in terms of the scale of operations), and the SAF operate under the auspices of the Ministry of Labor and Social Protection.

2. 1994 fiscal performance

a. Overview

The state budget relied in 1994 on four major tax revenue sources: the profits tax (raising 4.5 percent of GDP in 1994), the value-added tax (VAT) (3.6 percent), excise duties (1.9 percent), and individual income tax on wages and salaries (1.7 percent of GDP) (Tables 21-23). Smaller taxes include taxes on land, real estate, and forestry and tariffs (representing altogether about 1 percent of GDP). Nontax revenue includes profit remittances from the NBM, road fees, sales of commodity stores and equipment, and a variety of user fees, which totaled an amount equivalent to 4.8 percent of GDP. Expenditures are heavily biased toward social spending, including education, health, pensions, and cash subsidies (tied to the prices of essential commodities) for pensioners and others. Social sphere expenditures represented over half of total expenditure and net lending in the year, and totaled an amount equivalent to 12.4 percent of GDP. Other major expenditure categories were interest expense (2.1 percent of GDP), capital expenditure (1.6 percent), net lending (1.4 percent), and domestic law and order (1.4 percent).

1/ To facilitate comparisons with previous years, fiscal developments are described in terms of the staff's estimate of GDP for 1994 and for previous years.

Important improvements were made in 1994 in establishing a Treasury system, tax administration, the development of laws on budget process and debt management, especially the establishment of a Treasury-Bill market. All of these improvements were made with the aid of outside technical assistance. Cash management by the Treasury has been enhanced through a system of transfer through the commercial banks and expenditure control has been improved through Treasury approval of almost all expenditures. Further progress is hampered, however, by a shortage of computer and telecommunications equipment, a condition that should be alleviated in 1995. The tax administration underwent a reorganization, and the legal basis for efficient tax audit, collection and enforcement is being strengthened through amendments to a number of laws.

b. 1994 budget execution

Fiscal performance improved somewhat in 1994, as the fiscal deficit fell from the equivalent of 8.9 percent of GDP in 1993, to the equivalent of 8.1 percent of GDP in 1994. The improvement was achieved through constraint on expenditure, as the revenue ratio was roughly constant, while net lending rose to the equivalent of 1.4 percent of GDP, from 0.5 percent the previous year.

Despite the greater-than-envisaged decline in real output and inflation, total revenues, at 17.4 percent of GDP, were higher than anticipated, and up marginally as a share of GDP from the 1993 outcome. This was mainly on account of nontax revenue, in particular revenue from the sale of government assets, profit remittances from the NBM, and the full-year effect of the newly introduced road fees. As a result of these measures, the nontax revenue outcome, at 4.8 percent of GDP, was 3 percentage points higher than the previous year.

Tax revenue totalled 12.6 percent of GDP in 1994, down from 15.3 percent in 1993. While personal income tax and enterprise profit tax revenue remained essentially constant, at about 1.7 and 4.5 percent of GDP respectively, most other taxes fell as a share of GDP, led by the fall in the domestic indirect taxes, VAT (down to 3.6 percent of GDP from 4.4 percent in 1993) and excise taxes (from 3.0 percent in 1993 to 1.9 percent in 1994). A variety of factors contributed to this outcome. First, compliance declined as evidenced by a sharp increase in the level of tax arrears in 1994. The level of arrears rose by Mdl 252 million, equivalent to 3.2 percent of GDP, and net new arrears constituted 25.7 percent of realized tax collections. ^{1/} These arose mainly in the area of VAT, excises and the enterprise profit tax, and the major tax debtors were located in the agricultural and energy sectors. The growth of

^{1/} The growth of arrears occurred despite an increase in penalties for late payment, and a five-fold increase in the interest rate on overdue taxes, to 1 percent per day, exceeding the NBM finance rate for most of the year.

arrears in the agricultural sector was exacerbated by a series of natural disasters that struck the economy in the second and third quarters of the year, including a drought in the south and the east, severe storms in the center, and widespread flooding.

Second, while tax administration improved in 1994, the persistence of barter trade (both domestic and cross-border) and the predominance of cash transactions impeded tax collection. Tax administration was further complicated by weaknesses in the supporting legal structure that limited the ability of the tax inspectorate to obtain taxpayer information and constrained somewhat its ability to enforce collection.

Third, excise tax revenue was adversely affected in 1994 by a series of Government decrees that suspended taxes on a number of domestically-produced commodities and reduced tax rates on others. The excise tax on gasoline that was introduced at the beginning of 1994 generated only limited revenue in the year because of the growth of arrears. In addition, the government suspended land tax and real estate tax payments for agriculture in the second half of the year on account of the natural disasters.

Fourth, several revenue measures that were introduced in 1993 had only a minor impact on revenue in 1994. These included the planned extension of the VAT to non-CIS imports, and the imposition of import tariffs on non-CIS imports. Shortcomings in tax administration prevented the full implementation of these taxes. On the other hand, a reduction in top personal income tax rates, and the adjustment in the tax brackets that occurred in the third quarter improved the efficiency of the tax without seriously comprising income tax revenue.

Expenditure and net lending totaled Mdl 1,984 million in 1994, equivalent to 25.5 percent of GDP, down slightly from 25.9 percent realized in 1993. While expenditure on health and on education were broadly maintained in real terms, social sphere expenditures fell by the equivalent of 2 percent of GDP, to 12.4 percent, mainly on account of the fall in subsidy payments. Although delayed for several months, subsidies on bread, dairy products, salt and other foodstuffs were finally removed completely in June (Table 26). These general subsidies were replaced by a system of targeted cash compensation, which had been introduced in 1993, and which were increased with the elimination of subsidies. At the same time that the subsidies on foodstuffs were eliminated, there was an increase of about one third in salaries paid to workers in budget-covered organizations, in line with an increase in the minimum wage to lei 18 per month, from lei 13.5 that took effect from end-May. This wage increase placed pressure on other expenditure categories. Additional pressure originated from a large increase in interest expense, and from the natural calamities, that besides damaging crops, damaged the housing stock and infrastructure. A strict cash management system was put in place that identified priority expenditures and ensured that expenditure did not exceed the available financing. This sequestration mechanism limited was applied mainly to capital expenditures and ordinary maintenance of infrastructure.

The level of budgetary lending was much higher than planned. It totaled Mdl 111 million, equivalent to 1.4 percent of GDP, up from 0.5 percent in 1993. This lending included large loans for grain procurement on account of the drought, the assumption by the Government of the debt of Cereale, the state grain distribution enterprise, loans extended in the third quarter mostly to the agriculture and processing industries affected by the natural calamities, and defaults on government guaranteed loans.

The deficit totaled Mdl 630 million in 1994: about two thirds of the deficit was financed from foreign sources, with foreign borrowing totalling Mdl 403 million, equivalent to 5 percent of GDP. Amortization payments to Russia due in 1994 were rescheduled to after 1996. The majority of the foreign financing was delayed until the fourth quarter, and this, along with the expenditure pressures arising on account of the natural calamities, placed severe pressure on domestic financing sources throughout the second and third quarters of the year. However, net banking system credit to the Government totaled Mdl 107 million at year end, equivalent to slightly more than 1.4 percent of GDP. Some success was realized during 1994 in selling treasury bills to the private sector, with about Mdl 9 million placed, much of it in the last part of the year. The difficult budgetary situation resulted in an increase in the level of expenditure arrears during the year. These arrears emerged on payments of wages, and also for utilities and in capital expenditures, as well as in payments to the Social Fund to finance the cash compensation program.

The problem of collecting the domestic counterpart of foreign commodity aid persisted in 1994. A large portion of foreign financing available to Moldova continues to be in the form of commodity loans. The Government passed on the commodities, largely fuel, agricultural goods, and pharmaceuticals, to state enterprises, who were slow in repaying. To the extent that such funds were not repaid, these operations amounted to off-budget net-lending operations, or outright subsidization, by the Republican government. The amount involved was equivalent to 4.8 percent of GDP in 1994.

c. Social Security Fund performance

The SSF generated a surplus in 1994 of Mdl 21.2 million, equivalent to 0.3 percent of GDP, compared to a surplus equivalent to 1.4 percent and 1.6 percent of GDP in 1993 and 1992, respectively (Table 27). Total revenue was Mdl 473.6 million, equivalent to 6 percent of GDP, compared to 5.8 percent in 1993 and 7.0 percent in 1992. Payroll taxes furnished almost 90 percent of revenue in 1994, down from 99 percent in 1993. About Mdl 47 million, or about 10 percent of revenue, was provided through transfers from the government budget in 1994, compared to less than one percent in the previous year. Payroll tax arrears stood at Mdl 264.4 million at the end of 1994, an increase of Mdl 205 million,

equivalent to over half of actual collections in the year. ^{1/} In addition the SSF was owed Mdl 24.7 million by the Republican government, on account of compensation payments for targeted subsidy programs administered by the SSF, and Mdl 23.7 million by local governments. The level of expenditure arrears stood at Mdl 105 million at year-end, arising mostly from unpaid pensions. ^{2/}

Expenditure of the SSF totalled Mdl 452.4 million, equivalent to 5.8 percent of GDP, compared to 4.4 percent and 5.4 percent in 1993 and 1992 respectively. Regarding the composition of SSF expenditures, old-age pensions, at Mdl 312.3 million, accounted for 70 percent of expenditure, down from 81 percent in 1993. Expenditures on family support increased significantly in 1994, to 98.6 million, or 21.8 percent of expenditure, compared to about 10 percent of expenditure in 1993. This increase is explained mainly by the introduction in May 1994 of targeted heating and other subsidies. Expenditure on unemployment benefits increased slightly over 1993 as a percent of total expenditure (from 0.3 percent to 0.4 percent of total expenditure). Only about one quarter of those registered as unemployed receive unemployment benefit. Spending on training and social jobs expanded significantly in 1994, but from a very low base. As a result, the Employment Fund still spends less than the 1 percent of the wage bill which is notionally allocated to it.

Several changes were made in 1994 to the parameters affecting the SSF budget. Changes in early 1994 in the minimum-wage based formula for calculating pensions raised the total cost of pension provision. Pensions were increased in June, 1994, when the minimum wage was raised to lei 18 per month. This was the only increase during the year. In 1994 the Government decided to de-link pensions and other benefits from the minimum wage and introduce a system of targeted compensation, administered by the Social Fund. This program was designed to offer better protection to those most in need, with payments linked to increases in heating costs, and payments made only to nonworking pensioners. Other structural changes are being contemplated with a view to improving the sustainability of SSF operations. Draft legislation was introduced specifying a staged increase in the pension age. In addition, a decision taken by Government in December, 1994, provides for the payment of severance pay through the Social Fund in cases where bankrupt enterprises do not have sufficient funds to pay laid off employees.

^{1/} However, it should be noted that end-year arrears may have been overstated somewhat because of the accounting treatment of payroll tax due on end-of-year salary bonuses.

^{2/} Pension arrears can coexist with the cash surplus realized for the year on account of lags in transferring funds from surplus to deficit regions of the country.

V. External Sector Developments

1. Introduction

Moldova is an outward-oriented economy, with both exports and imports (including inter-republican trade) historically exceeding half of GDP. Exports consist primarily of agricultural and food products including wines, processed food and tobacco products. Other exports include electrical appliances, textiles and leather products, and precision tools. The composition of imports reflects Moldova's dependence on imported energy and the input requirements of its agro-industries. Moldova imports virtually all of its energy, primarily from the Russian Federation and the Ukraine, and, more recently, from Romania. The share of energy in imports has increased substantially, from about 16 percent of imports in 1991 to almost 40 percent of imports in 1994. Moldova has made significant progress in reorienting its trade toward non-FSU markets, with the share of non-FSU exports increasing from about 4 percent in 1991 to almost 34 percent of total exports in 1994.

2. Recent developments

Since 1992, Moldova's external position has deteriorated sharply, primarily due to the terms-of-trade impact of increased energy import prices ^{1/} in 1992 and 1994, and droughts that increased cereal imports and reduced agricultural exports (Table 28). Exports were constrained, inter alia, by a contraction of economic activity both domestically and among Moldova's primary trade partners. Capital flows, primarily from Western Europe and Russia, have financed the current account deficit, which increased from US\$39 million in 1992 to approximately US\$183 million in 1994. ^{2/}

In 1994, trade with non-FSU countries registered a deficit of approximately US\$31 million, including cereal imports and some convertible area energy imports. Trade with the non-convertible area registered a large deficit, almost US\$98 million, reflecting the increased cost of energy imports. The value of energy imported in 1994 increased by over 17 percent from the compressed levels of 1993 owing primarily to price increases as well as to increased coal imports. An important source of finance for some energy imports, particularly natural gas, is payments arrears: Moldgas, the Moldovan natural gas importing company, had accumulated arrears to its

^{1/} Energy import prices reached world market levels in 1994.

^{2/} Substantial progress has been made in the compilation of balance of payments statistics, and the Fund is providing technical assistance in this area. Nevertheless, deficiencies in the balance of payments statistics remain; in particular, trade flows via Transnistria are not fully captured by customs reporting, and barter trade, which was an important component of trade, is subject to valuation difficulties.

Russian supplier of about US\$120 million by end-1994, excluding accrued penalties.

The balance of services deteriorated sharply in 1994 primarily because of increased transport costs, including fuel, as well as increasing import volumes from more distant Western markets, including grain imports from the United States. Moldova received transfers of about US\$22 million in 1994, including over US\$8 million from the Netherlands.

3. Foreign direct investment

According to official statistics, as of end-1994 there were 412 registered joint ventures in Moldova, of which 146 were considered to be operational. Of the latter, the largest number of investors were from Romania (33), the USA (19), Bulgaria (13), and Germany (12). It is difficult to quantify corresponding capital flows, however, since not all transactions are reported. Official statistics indicated in 1994 that joint ventures in Moldova exported over US\$13 million in goods and services, had domestic sales of over US\$40 million, and paid wages of almost US\$3 million. Moldova has taken a broad range of steps to create an environment conducive to foreign investment, including the establishment of a relatively stable macroeconomic environment. For the most part, foreign investment seems to focus on Moldova's traditional exports including agricultural processing. Regulations permit a broad range of capital transfers including those which are already allowed under the Law of the Republic of Moldova on Foreign Investments.

4. Capital account

Moldova had disbursements of over US\$170 million in medium and long-term capital in 1994, including: the World Bank (almost US\$67 million); the European Union (US\$32 million); the Japan EXIM Bank (US\$ 30 million); the United States (US\$20 million); the Russian Federation (about US\$10 million); and Romania (about US\$10 million).

5. National Bank reserves

At the end of 1992 the gross official reserves of the NBM in convertible currencies were US\$2.45 million. On the basis of purchases from the Fund of SDR 63 million in 1993 and SDR 49.45 million in 1994, as well as the foreign disbursements outlined above, the NBM increased gross official reserves to US\$179 million by the end of 1994. This was roughly equal to about three months of import cover.

6. Exchange arrangements

a. Exchange market developments

Until the currency conversion in Russia of July 24, 1993, Moldova was a member of the ruble zone. On November 29, 1993, Moldova introduced the leu

at an exchange rate equivalent to US\$1 = Mdl 3.8. ^{1/} Since the introduction of the leu the nominal exchange rate against the US dollar has remained relatively stable (see Chart 4), with the real exchange rate appreciating by 82 percent vis-à-vis the U.S. dollar over 1994. As of end-April, 1995 the exchange rate was US\$1 = Mdl 4.5. Against the Russian ruble, the leu gradually appreciated to Mdl 1 = RRub 880 as of end-April, 1995, compared with Mdl 1 = 2500 Rrub as of November 29, 1993.

The average nominal exchange rate against the U.S. dollar fell from leu 3.82 per U.S. dollar in the first quarter of 1994 to leu 4.07 per U.S. dollar in the second quarter, to leu 4.14 per U.S. dollar in the third quarter, and further to leu 4.25 per U.S. dollar in the fourth quarter. The foreign currency market consists of the fixing sessions of the Chisinau Interbank Foreign Currency Exchange (CIFCE), the interbank market outside of the fixing sessions, and the cash market. The total volume of transactions on the CIFCE averaged about US\$14 million per quarter in 1994, with volumes on the cash market thought to be somewhat higher.

Weekly interbank fixing sessions were introduced in October 1993; their frequency was increased to three times a week in the second half of December 1993, and the NBM expanded the foreign exchange auctions to include the Russian ruble, and, occasionally, the Romanian leu, and the German mark. From February 1995 there were daily fixing sessions.

b. Administration of control ^{2/}

A detailed description of Moldova's exchange system is given in Appendix II. A new legal framework for regulating foreign exchange transactions was adopted on January 17, 1994. The framework provides for a liberal exchange system in which most payments and transfers for current international transactions and some capital transfers are freely permitted. The surrender requirement was eliminated on November 15, 1994 and replaced by a repatriation requirement. The interbank market has broadened substantially over the past year, and a large volume of transactions now take place between commercial banks outside of the daily foreign exchange auctions of the Chisinau Interbank Foreign Currency Exchange.

The authorities have stated their intention to eliminate all remaining exchange measures subject to Fund jurisdiction and to accept the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles. As of end-May

^{1/} The Fund staff provided extensive technical assistance in this area, including a special MAE mission which visited Chisinau immediately prior to the introduction of the leu. The local authorities prevented the introduction of the leu in the Transnistria region.

^{2/} A broader discussion of exchange arrangements and exchange restrictions in Moldova can be found in the annual IMF publication Exchange Arrangements and Exchange Restrictions.

1994, the authorities maintain the following exchange measures under the transitional arrangements of Article XIV, Section 2: 1) an exchange restriction arising from the limitation on the right of resident legal entities to make advance payments to countries outside of the former Soviet Union for the import of goods and services; 2) exchange restrictions arising from limitations on the right of resident individuals to make payments for a variety of current international transactions to countries outside of the former Soviet Union; and 3) exchange restrictions arising from the National Bank's system of correspondent accounts with FSU central banks other than the Central Bank of Russia.

c. Financial relations with other FSU Republics

Moldova maintains outstanding balances on inoperative correspondent accounts with a number of FSU central banks. Turkmenistan owes Moldova Soviet ruble 8.377 billion, and the repayment terms in US dollars had, at one point, been agreed. However, repayment remains under negotiation. Moldova's claims on Ukraine as of July 1, 1993 were Soviet ruble 6.2 billion, which both parties agreed to transform into a debt of US\$28.4 million. Repayment remains under negotiation.

7. External debt

An external borrowing council was established in November 1993 to enforce the government's strategy of external borrowing with a view to ensuring that the level of borrowing and the maturity structure are consistent with external viability; a system of reporting and monitoring has been in operation since January 1994. In early 1995, the Government expressed its intention to strengthen the monitoring of external borrowing by giving the Ministry of Finance the sole authority to borrow abroad under government guarantee or give repayment guarantees on enterprise sector borrowing.

8. Trade system

Moldova has established a liberal trade regime. A major step toward trade liberalization occurred on April 5, 1993 when generalized export licensing requirements were abolished and licensing was limited to 155 export categories. Liberalization progressed throughout 1993 and 1994, and as of end-1994 export quotas had been eliminated for all goods except grain and grain products. Licensing affects only products subject to national security, medical and cultural regulations. A new import tariff schedule has been introduced, which reduced the average rate in the first quarter of 1995 to about 15 percent; the maximum rate applied to most commodities was lowered to 30 percent as of end-March 1995. Moldova has initiated the process of accession to the GATT/WTO.

MOLDOVA

External Sector Indicators

Exchange Rate Developments

Gross International Reserves of the NBM
(In millions of US dollar)

Exports and Imports
(In millions of US dollars)

Energy Imports
(In percent of total imports)

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Table 1. Moldova: Summary Indicators

Social and demographic indicators (1994)					
Area (sq. km.)					33,800
Population density (inhabitants per sq. km.)					129
Population (thousands)					4,353
Life expectancy at birth ^{1/}					
Total population					67.8
Males					64.3
Females					71.1
Infant mortality rate 18.4 (per 1,000 births)					21.5
Hospital beds (per 1,000 inhabitants) ^{1/}					13.1
Physicians (per 1,000 inhabitants) ^{1/}					4.0
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
	<u>(Annual changes in percent)</u>				
Real GDP	...	-17.5	-29.0	-4.7	-30.1
Gross fixed investment (in constant prices)	-0.4	-9.5	-25.9	-43.7	-51.1
Value of agricultural production (in constant prices)	-12.9	-10.1	-16.5	+9.9	-26.6
Gross industrial production (in constant prices)	3.6	-7.0	-27.1	4.2	-29.9
Consumer price index					
Average period	...	...	1276.5	1751.0	486.4
End period	...	...	2198.2	2705.7	104.6
	<u>(In millions of lei)</u>				
Output					
Nominal GDP	12.7	25.9	191.9	2,068.2	...
Nominal NMP	9.4	18.8	166.9	1,690.0	4,338.0
Money and credit					
Demand and time deposits	...	16.4	73.6	229.8	407.7
Currency in circulation	...	1.8	9.4	119.5	345.6
Banking sector claims					
On general government ^{2/}	...	7.1	59.1	116.7	235.5
On enterprises	...	6.9	33.6	243.3	493.9
On the private sector	...	1.5	11.2	91.1	174.8
State Budget					
Revenues	4.5	6.4	43	364	1,353
Expenditures	4.1	6.4	94	553	1,984
Deficit	0.4	--	-50	-189	-630
Trade ^{3/}					
Total exports	6,176	7,952	868	451	617
Total imports	6,461	8,042	-905	-631	-745
Current account	...	...	-39	-182	-183
	<u>(In percent)</u>				
Shares of GDP					
Agriculture	31.1	33.4	38.1	45.9	47.7
Industry	25.6	29.6	30.5	28.6	25.3
Construction	6.7	8.4	7.8	4.2	2.2
Transportation and communication	3.6	3.6	2.4	1.2	1.2
Trade ^{4/}	6.9	6.7	5.9	4.1	3.6
Other	26.1	18.2	15.2	16.0	20.0

Sources: Data provided by the Moldovan authorities; and staff estimates.

^{1/} 1990 figures.

^{2/} Includes net claims on pension funds.

^{3/} Expressed in millions of rubles, 1990-91; in millions of US\$, 1992-93.

^{4/} Includes wholesale and foreign trade.

Table 2. Moldova: Gross Domestic Product in 1990 Prices

	1990	1991	1992	1993	1994
<u>(In thousands of lei)</u>					
Gross Domestic Product	12,661	10,446	7,417	7,068	4,941
Industry	3,245	3,088	2,264	2,021	1,252
Fuel/power	128	112	95	78	53
Heavy industry	1,376	1,291	904	945	601
Light industry	1,255	1,254	955	703	356
Food industry	266	236	178	199	156
Other industries	220	196	131	96	86
Construction	852	881	582	297	107
Agriculture	3,934	3,487	2,829	3,242	2,358
Crops	2,354	2,142	1,743	2,360	1,571
Livestock and poultry	919	765	585	449	396
Other	661	579	501	432	390
Wholesale and retail trade	871	705	436	292	178
Transport and Communication	452	380	178	85	60
Other services	3,307	1,905	1,128	1,132	987

Sources: Data provided by the Moldovan authorities; and staff estimates.

Table 3. Moldova: Sectoral shares of GDP

	1990	1991	1992	1993	1994
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
Industry	25.6	29.6	30.5	28.6	25.3
Fuel/power	1.0	1.1	1.3	1.1	1.1
Heavy industry	10.9	12.4	12.2	13.4	12.2
Light industry	9.9	12.0	12.9	9.9	7.2
Food industry	2.1	2.3	2.4	2.8	3.2
Other industries	1.7	1.9	1.8	1.4	1.7
Construction	6.7	8.4	7.8	4.2	2.2
Agriculture	31.1	33.4	38.1	45.9	47.7
Crops	18.6	20.5	23.5	33.4	31.8
Livestock and poultry	7.3	7.4	7.9	6.4	8.0
Other	5.2	5.5	6.7	6.1	7.9
Wholesale and retail trade	6.9	6.7	5.9	4.1	3.6
Transport and communication	3.6	3.6	2.4	1.2	1.2
Other	26.1	18.2	15.2	16.0	20.0

Sources: Data provided by the Moldovan authorities; and staff estimates.

Table 4. Moldova: Gross Output, Input, and Net Material Product by Sector
(In thousands of lei)

	1990	1991	1992	1993	1994
Total material sphere					
Gross output	22,629	42,527	397,54	4,203,861	10,408,486
Material input	13,186	23,774	230,652	2,513,820	6,070,443
Net product	9,443	18,753	166,889	1,690,041	4,338,043
Industry					
Gross output	12,698	24,930	230,279	2,408,986	5,169,108
Material input	9,453	17,882	174,990	1,757,724	3,766,275
Net product	3,245	7,048	55,289	651,262	1,402,833
Agriculture					
Gross output	6,095	11,337	103,591	1,091,680	2,924,394
Material input	2,161	3,515	31,240	398,482	1,053,029
Net product	3,934	7,822	72,351	693,198	1,871,365
Construction					
Gross output	1,806	2,505	27,819	169,677	803,316
Material input	954	1,209	12,951	78,750	373,765
Net product	852	1,296	14,868	30,927	429,551
Transport					
Gross output	734	1,246	13,986	322,702	1,065,859
Material input	302	575	6,363	22,8330	767,385
Net product	432	671	7,623	94,372	298,474
Communications					
Gross output	27	50	476	21,295	70,336
Material input	7	10	118	5,588	18,782
Net product	20	40	358	15,707	51,554
Retail trade, catering					
Gross output	642	1,278	11,705	96,403	206,146
Material input	143	290	2,459	16,038	34,182
Net product	499	988	9,246	80,365	171,964
Wholesale nonagric. trade					
Gross output	84	230	4,344	45,159	111,154
Material input	17	78	1,474	17,712	43,451
Net product	67	152	2,870	27,447	67,703
Wholesale agric. trade					
Gross output	257	404	3,193	33,127	19,192
Material input	48	74	610	8,468	4,890
Net product	209	330	2,583	24,659	14,302
Foreign trade					
Gross output	96	287	1,001	4,000	8,048
Material input	--	--	--	--	--
Net product	96	287	1,001	4,000	8,048
Forestry					
Gross output	13	22	236	2,162	7,592
Material input	4	9	93	386	1,350
Net product	9	13	143	1,776	6,242
Info/computer services					
Gross output	106	117	335	3,458	11,704
Material input	64	73	88	1,031	3,528
Net product	42	44	247	2,427	8,176
Other					
Gross output	71	121	576	5,212	11,637
Material input	33	59	266	1,314	3,806
Net product	38	62	310	3,901	7,831

Source: Data provided by the Moldovan authorities.

Table 5. Moldova: Value of Agricultural Production

	1990	1991	1992	1993	1994
(In thousands of 1983 lei)					
Total agricultural output	4,408	3,964	3,312	3,641	2,674
Crops	2,537	2,386	2,051	2,618	1,801
Grains	311	384	254	408	...
Potatoes	56	56	59	138	...
Other fodder/root crops	176	202	130	158	...
Vegetables	367	306	249	386	...
Grapes	438	362	385	433	...
Other fruit/berries	476	401	314	631	...
Tobacco	348	338	234	262	...
Sugar beets	122	116	101	116	...
Sunflowers	63	42	49	49	...
Other 1/	180	179	276	37	...
Animal products	1,872	1,578	1,261	1,023	873
Livestock for slaughter	1,089	885	647	466	...
Of which:					
Cattle	363	287	229	154	...
Pigs	487	405	294	211	...
Sheep and goats	24	16	14	20	...
Poultry	213	177	110	78	...
Milk	600	513	451	388	...
Eggs	108	102	78	59	...
Wool	26	25	22	23	...
Other	49	53	63	90	...
(Average annual growth, in percent)					
Total agricultural output	-12.9	-10.1	-16.4	9.9	-26.6
Crops	-17.6	-6.0	-14.0	27.6	-31.2
Grains	-24.7	23.5	-33.9	60.6	...
Potatoes	-37.1	21.4	5.4	133.9	...
Other fodder/root crops	-27.6	14.8	-35.6	21.5	...
Vegetables	-1.3	-16.6	-18.6	55.0	...
Grapes	-9.5	-17.3	6.4	12.5	...
Other fruit/berries	-27.9	-15.8	-21.7	100.0	...
Tobacco	-2.5	-2.9	-30.8	12.0	...
Sugar beets	-34.4	-4.9	-12.9	14.9	...
Sunflowers	-11.3	-33.3	16.7	--	...
Other 1/	-11.3	-0.6	54.2	-86.6	...
Animal products	-5.5	-15.7	-20.1	-18.9	-14.7
Livestock for slaughter	-6.7	-18.7	-26.9	-28.0	...
Of which:					
Cattle	-9.7	-20.9	-20.2	-32.8	...
Pigs	-6.3	-16.8	-27.4	-28.2	...
Sheep and goats	4.3	-33.3	-12.5	42.9	...
Poultry	-3.2	-16.9	-37.9	-29.1	...
Milk	-2.4	-14.5	-12.1	-14.0	...
Eggs	-2.7	-5.6	-23.5	-24.4	...
Wool	0.0	-3.8	-12.0	4.5	...
Other	-19.7	8.2	18.9	42.9	...

Source: Data provided by the Moldovan authorities.

1/ Includes values of crops discarded.

Table 6. Moldova: Agricultural Production and Yields

(In thousands of tonnes)

	1990	1991	1992	1993	1994
Agricultural production ^{1/}					
Grain	2,539	3,106	2,100	3,340	1,754
Wheat (winter)	1,129	1,056	926	1,393	659
Rye	2	2	13	3	3
Corn	885	1,501	635	1,324	629
Barley (winter)	325	346	284	363	130
Oats	4	4	7	11	7
Oilseeds	276	203	205	203	153
Sunflower seeds	252	169	197	194	149
Soybeans	24	33	8	9	4
Sugarbeets	2,374	2,262	1,973	2,248	1,527
Potatoes	295	291	311	726	475
Pulses	97	105	71	...	...
Vegetables	1,177	989	788	777	599
Grapes	940	774	824	928	670
Other (fruits and berries)	901	697	511	1,088	665
Tobacco	66	63	42	50	39

Source: Data provided by the Moldovan authorities.

^{1/} Clean weight.

Table 7. Moldova: Animal Husbandry

	1990	1991	1992	1993	1994
	(In thousands)				
Livestock inventory					
Livestock	1,061	1,001	970	916	833
Of which:					
Cows	395	397	403	411	398
Pigs	1,850	1,753	1,487	1,165	1,058
Sheep	1,245	1,239	1,294	1,366	1,419
Goats	37	50	63	78	81
Horses	47	49	51	55	70
Poultry	24,625	23,716	17,128	14,544	14,415
	(In thousands of tonnes)				
Production					
Meat 1/	366	304	234	180	159
Beef	114	97	75	68	...
Pork	177	145	114	79	...
Lamb	7	5	4	4	...
Poultry	66	56	39	26	...
Other	2	1	2	2	...
Milk	1,511	1,292	1,135	976	869
Eggs (millions)	1,129	1,061	813	618	486
Wool (tons)	3,043	2,869	2,616	2,636	2,818
Productivity measures 2/					
Eggs per laying hen	207	195	152	145	151
Milk per cow 3/	3,975	3,394	3,026	2,413	2,278

Source: Data provided by the Moldovan authorities.

1/ Slaughter weight.

2/ Productivity measures exclude private subsidiary agriculture.

3/ At beginning of the year, kilograms per cow.

Table 8. Moldova: Value Added in Agriculture by Form of Ownership

	1990	1991	1992	1993	1994
<u>(In thousands of lei, current prices)</u>					
Total	3,934	7,822	66,020	668,720	2,032,396
State farms	899	1,744	11,539	67,250	183,000
Cooperative farms	2,137	4,895	38,352	365,404	1,097,396
Private farms	898	1,895	16,129	236,066	752,000
Percent of total	100.0	100.0	100.0	100.0	100.0
State farms	22.9	21.6	17.5	10.1	9.0
Cooperative farms	54.3	54.2	58.1	54.6	54.0
Private farms	22.8	24.2	24.4	35.3	37.0
<u>(In thousands of lei, constant 1983 prices)</u>					
Total	2,570	1,850	1,231	1,714	1,282
State farms	622	413	184	167	115
Cooperative farms	1,480	1,036	448	556	692
Private farms	468	401	599	991	475
<u>(Annual change at 1983 prices, in percent)</u>					
Total	-19.8	-28.0	-33.5	39.2	-25.2
State farms	-28.7	-33.6	-55.5	-9.2	-31.1
Cooperative farms	-15.0	-30.0	-56.8	24.0	24.5
Private farms	-21.1	-14.3	49.4	65.4	-52.1

Source: Data provided by the Moldovan authorities.

Table 9. Moldova: Value of Industrial Production by Sector

	1990	1991	1992	1993 <u>1/</u>	1994 <u>1/</u>
<u>(In thousands of 1982 lei)</u>					
All industries	10,884	10,122	7,379	6,842	4,796
Heavy industry	4,591	4,288	2,964	2,739	1,961
Fuel and energy	302	264	225	185	126
Ferrous metal	114	110	107	...	...
Machinery and metalworking	2,278	2,435	1,590	1,678	1,057
Pulp and paper	31	30	29	18	...
Petrochemical	360	272	222	124	86
Forestry/wood	353	359	256	201	125
Construction materials	448	397	214	147	86
Light industry	2,456	2,434	1,854	1,365	691
Textiles	1,132	1,163	968	660	383
Clothing	863	865	608	438	223
Leather and shoes	454	401	278	267	93
Food industry	3,662	3,244	2,457	2,738	2,173
Food processing	2,740	2,491	2,077	2,526	2,041
Meat and dairy	904	744	376	207	132
Fish	18	9	4	5	...
Other industries	175	156	104	...	...
<u>(Average growth in percent)</u>					
All industries	3.6	-7.0	-27.1	-7.2	-29.9
Heavy industry	5.1	-6.6	-30.9	-7.6	-28.4
Fuel and energy	-6.5	-12.6	-14.8	-17.8	-31.9
Ferrous metal	11.8	-3.5	-2.8	...	...
Machinery and metalworking	4.6	...	-34.7	5.5	-37.0
Pulp and paper	14.8	-3.2	-3.4	-37.9	...
Petrochemical	3.7	-24.4	-18.4	-44.1	-30.6
Forestry/wood	4.1	1.7	-28.7	21.5	-39.8
Construction materials	4.2	-11.4	-46.1	-31.3	-41.5
Light industry	3.3	-0.9	-23.8	-26.4	-49.4
Textiles	6.3	2.7	-16.8	-31.8	-42.0
Clothing	4.9	0.2	-29.7	-28.0	-49.1
Leather and shoes	-6.2	-11.7	-21.7	-4.0	-65.2
Food industry	2.1	-11.4	-24.3	11.4	-20.6
Food processing	1.9	-9.1	-16.6	21.6	-19.2
Meat and dairy	3.1	-17.7	-49.5	-44.9	-36.2
Fish	0.0	-50.0	-55.6	25.0	...
Other industries	-1.1	-10.9	-33.4	...	...

Source: Data provided by the Moldovan authorities.

1/ Excluding Transnistria.

Table 10. Moldova: Output of Selected Products

Item	Unit of Measure	1990	1991	1992	1993	1994
<u>(In physical units)</u>						
Food products						
Sugar	thous. tonnes	435.8	236.9	208.1	209.0	153.6
Meat	thous. tonnes	257.9	218.5	165.1	94.7	36.0
Sausage	thous. tonnes	50.0	45.1	30.4	12.4	6.4
Edible fats	thous. tonnes	10.4	7.4	5.0	1.5	1.1
Whole milk products	thous. tonnes	454.8	382.6	245.4	175.1	85.1
Cheese	thous. tonnes	12.2	10.0	4.6	3.8	2.4
Veg. oil	thous. tonnes	125.6	117.9	57.9	39.3	25.4
Bread and rolls	thous. tonnes	522.6	512.7	449.8	350.2	245.2
Pasta	thous. tonnes	25.1	26.8	16.0	13.2	8.2
Flour	thous. tonnes	633.9	576.7	500.4	406.3	229.3
Candy	thous. tonnes	70.2	58.5	32.6	34.1	13.7
Canned goods	mil. cans	1,813.9	1,446.3	1,115.3	952.4	618.3
Soft drinks	mil. liters	130.6	86.4	29.0	16.0	11.1
Min. water	mil. liters	43.9	32.8	13.7	7.6	5.8
Vodka	mil. liters	5.6	5.6	6.2	10.0	18.2
Cognac	mil. liters	13.9	14.0	9.6	5.5	5.2
Wine from grapes	mil. liters	163.0	143.4	141.1	102.9	74.6
Champagne	mil. bottles	10.1	9.8	10.7	11.1	9.3
Cigarettes	billions	9.1	9.2	8.6	8.8	8.0
Nonfood products.						
Tractors	units	9,800	6,600	5,400	4,200	1,200
Articles from plastic	thous. tonnes	13.1	9.5	4.5	2.9	1.7
Lumber	thous. cu. m.	265.0	214.9	109.4	53.0	...
Reinforced concrete	thous. cu.m.	1,941.7	1,594.0	837.2	344.7	177.1
Knitted articles	millions	66.1	52.3	35.3	18.7	5.0
Cloth	mil. sq. m.	244.2	228.1	183.0	2.6	0.5
Carpets	mil. sq. m.	5.4	4.2	2.8	2.6	1.7
Hosiery	mil. pairs	44.4	37.1	26.8	19.4	6.3
Shoes	mil. pairs	23.2	20.8	14.5	4.9	2.2
Refrigerators/freezers	thousands	133.0	117.7	54.8	57.6	53.2
Washing mach.	thousands	298.0	194.0	102.0	122.7	80.8
Television sets	thousands	138.0	172.5	176.1	166.7	105.9
Tape recorders	thousands	130.0	109.9	48.3	31.3	16.0
Centrifugal pumps	thousands	79.2	85.0	85.4	54.2	31.0
Electric forklifts	units	3,700	2,400	800	100	100

Source: Data provided by the Moldovan authorities.

Table 11. Moldova: Share of Transnistria
Production for Selected Goods

(In percent)

	1991	1992	1993	1994
Electric energy	87.5	87.1	...	...
Large electric machines	100.0	100.0	100.0	100.0
Power transformers	100.0	100.0	100.0	100.0
Electric engines, low horsepower	55.8	57.8	...	...
Sheet metal	23.5	...	...	...
Gas containers	100.0	100.0	100.0	100.0
Cement	58.1	84.7	...	...
Slate	100.0	100.0	100.0	100.0
Cotton fabrics	96.6	97.6	...	...
Agricultural output	13.3	11.7	16.2	...

Source: Data provided by the Moldovan authorities.

Table 12. Moldova: Gross Fixed Investment at Constant Prices

	1990	1991	1992	1993	1994
<u>(In thousands of 1991 lei)</u>					
Total	3,640	3,295	2,442	1,037	507
Industry	791	531	370	208	78
Electricity	75	52	116	48	4
Agriculture	1,077	1,130	477	164	64
Forestry	3	2	7	4	...
Construction	76	56	19	9	16
Housing	709	697	837	368	177
Other	909	827	616	323	168
<u>(Real growth rate in percent)</u>					
Total	-0.4	-9.5	-25.9	-43.7	-51.1
Industry	-3.3	-32.9	-30.3	-40.9	-62.5
Agriculture	2.5	4.9	-58.7	-53.1	-61.0
Construction	-12.6	-26.3	-68.7	-35.7	-77.0
Housing	5.0	-1.7	20.0	-39.9	-51.9
Other	-4.3	-9.0	-25.5	-47.6	-48.0
<u>(Growth index: 1985)</u>					
Total	122.5	110.9	82.2	46.3	22.6
Industry	123.6	83.0	57.8	34.2	12.8
Agriculture	111.7	117.2	49.5	25.2	9.0
Construction	92.7	68.3	23.2	14.9	26.4
Housing	126.6	124.5	149.5	89.8	43.2

Source: Data provided by the Moldovan authorities.

Table 13. Moldova: Gross Fixed Investment at Current Prices

	1990	1991	1992	1993	1994
<u>(In thousands of lei)</u>					
Total	2,474	3,295	28,333	171,419	712,371
Industry	558	531	4,052	28,069	109,424
Electricity	57	52	1,342	8,280	4,664
Agriculture	738	1,130	5,535	27,139	90,414
Forestry	2	2	81	43	31
Construction	51	56	215	1,563	22,159
Housing	451	697	9,716	60,923	248,366
Others	617	827	7,393	45,402	237,313
<u>(As percent of total)</u>					
Total	100.0	100.0	100.0	100.0	100.0
Industry	22.6	16.1	14.3	16.4	15.4
Agriculture	29.8	34.3	19.5	15.8	12.7
Construction	2.1	1.7	0.8	0.9	3.1
Housing	18.2	21.2	34.3	35.5	34.9
Others	24.9	25.1	26.1	26.5	33.3

Source: Data provided by the Moldovan authorities.

Table 14. Moldova: Composition of Labor force by Sector

	1989	1990	1991	1992	1993
<u>(Yearly averages, in thousands)</u>					
Total labor	2,439	2,429	2,463	2,460	1,954
Total employed outside home	1,932	1,927	1,796	1,775	1,475
in state sector	1,531	1,371	1,261	1,180	776
on collective farms	344	467	479	552	682
self employed <u>1/</u>	4	4	4	4	4
in cooperatives <u>2/</u>	53	85	52	39	13
In "personal subsidiary agriculture" <u>3/</u>	159	144	274	275	225
On work leave for study	157	151	146	142	115
Housekeeping/maternity leave <u>4/</u>	188	204	247	268	139
<u>(As percent of total employed outside home)</u>					
Total employed outside home					
In state sector	79.2	71.1	70.2	66.5	52.6
On collective farms	20.5	28.6	29.6	33.3	47.1
In private sector	0.3	0.3	0.2	0.2	0.3
<u>(In thousands)</u>					
<u>Memorandum items</u>					
Women employed outside private sector	959	950	966	923	698
<u>(In percent)</u>					
Share of women in total nonprivate employment	51.1	51.7	55.5	53.3	47.9

Source: Data provided by the Moldovan authorities.

1/ Excludes people with other occupations.

2/ May include double counting.

3/ Includes people of working age only; may include double counting.

4/ "Housekeeping" includes persons on maternity leave.

Table 15. Moldova: Employment by Sector

	1990	1991	1992	1993	1994 <u>1/</u>
<u>(Yearly average, in thousands)</u>					
Total employment <u>2/</u>	2,071	2,070	2,050	1,688	1,324
Industry	456	424	415	245	199
Agriculture	673	739	745	726	557
Construction	172	153	146	105	55
Transport/communication	70	67	65	47	66
Trade and catering <u>3/</u>	148	137	133	106	70
Other industrial <u>4/</u>	33	31	29	22	19
Education/culture/art	232	224	223	192	178
Health	115	116	116	96	96
Science/research and development	33	29	28	14	10
Other services <u>5/</u>	139	150	150	135	74
<u>(As percent of total)</u>					
Industry	22.0	20.5	20.3	14.5	15.0
Agriculture	32.5	35.7	36.3	43.0	42.1
Construction	8.3	7.4	7.1	6.2	4.2
Transport/communication	3.3	3.2	3.2	2.8	5.0
Trade and catering	7.1	6.6	6.5	6.3	5.3
Other industrial <u>4/</u>	1.6	1.5	1.4	1.4	1.4
Education/culture/art	11.2	10.8	10.9	11.4	13.4
Health	5.6	5.6	5.6	5.7	7.3
Science/research and development	1.6	1.4	1.4	0.8	0.8
Other services <u>5/</u>	6.7	7.2	7.3	8.0	5.6

Source: Moldovan authorities.

1/ Preliminary.

2/ Includes employment in personal subsidiary agriculture.

3/ Trade, catering, material and technical supply, sale and state purchases.

4/ Includes film, media, forestry, and computer services.

5/ Includes passenger transport, municipal and everyday services, and administration.

Table 16. Moldova: Inflation and Interest Rates, 1993-94

	Inflation				Interest Rates	
	Consumer Price Index 1/				NBM Credit	Commercial
	Total 2/	Food 3/	Nonfood 3/	Services 3/	Auction Rate 4/	Bank Lending Rate 5/
1993						
January	37.1	38.3	70.8	52.2	53.9	...
February	17.3	21.8	28.2	39.0	33.4	...
March	21.4	4.3	14.5	33.7	20.9	...
April	13.8	8.2	21.2	11.2	64.5	10.83
May	13.6	2.1	14.8	19.4	54.2	11.67
June	12.6	13.5	50.8	21.1	15.3	11.11
July	18.9	33.0	41.2	61.8	45.1	12.50
August	21.0	33.2	16.8	21.1	47.8	14.31
September	25.8	37.2	45.4	21.1	43.9	14.86
October	18.2	38.1	52.7	17.9	44.7	16.25
November	16.7	28.0	16.1	42.5	47.6	18.75
December	31.9	45.5	72.0	46.0	33.9	22.92
1994						
January	21.3	27.1	9.9	43.1	57.2	23.42
February	24.5	24.8	18.2	27.1	22.9	31.42
March	11.2	9.9	7.5	21.4	8.8	17.08
April	5.0	-0.9	6.8	16.3	6.0	17.42
May	2.7	2.2	2.3	5.5	6.4	15.42
June	2.7	3.6	1.3	1.1	2.0	9.83
July	2.2	-1.5	4.3	7.6	-0.3	6.58
August	-0.1	-1.4	0.9	1.0	-1.0	0.25
September	2.5	3.6	2.7	0.1	2.9	5.25
October	4.2	3.0	5.9	3.1	4.2	5.25
November	3.5	4.0	3.5	1.9	6.8	3.75
December	2.9	4.1	1.9	2.2	2.3	3.50

Sources: Data provided by the Moldovan authorities; and staff estimates.

1/ Monthly percentage change.

2/ Data through Q1 1994 adjusted to correct for the Sauerbeck price index formula and to exclude price developments in Transnistria.

3/ Monthly percentage change. Data not adjusted to correct for Sauerbeck price index or price developments in Transnistria.

4/ Monthly interest rate on three-month credit.

5/ Average interest rate on three-month credit extended by the four largest banks.

Table 17. Moldova: Monetary Authorities' Accounts, 1991-94

(In millions of lei)

	1991	1992	1993				1994			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net foreign assets	--	-7.94	-17.01	-27.13	-33.67	-15.08	-72.57	-35.04	-47.82	81.77
NFA (convertible)	--	1.01	2.79	-9.46	-16.01	-38.90	-85.92	-48.28	-61.79	68.01
Gross reserves	--	1.01	15.70	11.75	87.78	279.05	266.87	421.84	494.01	763.39
Foreign liabilities	--	--	-12.91	-21.21	-103.79	-317.95	-352.79	-470.12	-555.80	-695.38
NFA (nonconvertible)	--	-8.95	-19.80	-17.67	-17.65	23.81	13.35	13.23	13.96	13.75
NFA (rubles)	--	-8.95	-19.80	-17.67	-17.67	13.11	13.25	13.22	13.21	13.54
With Russia	--	-14.62	-28.09	-31.57	-31.63	-2.72	-2.74	-2.86	-2.86	-2.85
Corres. accounts	--	-17.73	-36.20	-39.68	-39.74	-10.83	-10.85	-10.96	-10.97	-10.95
Less: new ruble liab.	--	3.11	8.11	8.11	8.11	8.11	8.11	8.11	8.11	8.11
With other FSU states	--	5.67	8.30	13.90	13.96	15.83	15.99	16.08	16.07	16.39
NFA (other nonconvertible)	--	--	--	--	0.02	10.70	0.10	0.01	0.75	0.21
Net domestic assets	7.58	57.11	69.34	125.41	200.19	257.37	339.61	380.45	494.41	470.50
Net claims on general government	0.40	51.64	61.24	78.45	114.85	146.00	176.43	176.75	300.18	246.54
Net claims on republican budget	--	-0.09	-3.67	1.51	20.30	14.69	2.47	-14.31	-22.58	-12.64
Net claims on other republican account	0.02	3.02	4.67	5.97	6.30	5.91	7.06	8.01	9.04	10.09
Net claims on other government	0.39	49.12	60.58	71.06	88.73	125.50	167.03	183.19	313.86	249.24
Net claims on local government	--	-0.40	-0.34	-0.09	-0.48	-0.09	-0.13	-0.14	-0.14	-0.14
Net claims on pension funds	0.07	--	--	--	--	--	--	--	--	--
Claims on enterprises	0.09	0.79	--	--	--	--	--	--	--	--
Credit to banks	1.14	3.37	17.24	30.39	77.72	98.68	154.48	200.49	179.19	274.67
Other items (net)	5.87	1.31	-9.14	16.56	7.62	12.69	8.70	3.21	15.05	-50.71
Capital accounts	-0.08	-0.06	-4.21	-4.66	-4.85	-1.72	-31.61	-34.10	-37.24	-24.72
Other interbank	3.69	4.67	4.72	4.55	4.52	4.31	4.33	4.30	4.29	4.28
Other net	2.26	-3.29	-9.65	16.67	7.94	10.10	35.97	33.01	48.01	-30.27
Reserve money	7.58	49.17	52.34	98.28	166.52	242.29	267.03	345.40	446.59	552.27
Currency in circulation	1.83	9.44	19.91	36.68	83.09	119.45	128.19	175.52	272.43	345.55
Required reserves	0.99	9.43	10.86	17.79	25.28	43.16	41.69	35.41	49.53	50.18
Excess reserves	4.75	30.21	21.37	43.29	57.01	77.15	94.91	131.86	118.58	151.26
Net correspondent deposits	4.23	28.39	16.72	34.11	46.84	66.11	86.92	112.89	102.77	141.85
Enterprise deposits	--	0.09	0.19	0.53	1.15	2.54	2.25	2.61	6.06	5.28

Source: Data provided by the National Bank of Moldova.

Table 18. Moldova: Monetary Survey, 1991-94

(In millions of lei)

	1991	1992	1993				1994			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net foreign assets	0.005	-6.92	-13.57	-17.96	-15.24	41.51	-5.64	261.12	67.04	197.94
NFA (convertible)	0.005	1.95	4.99	-0.83	1.61	15.41	-26.25	240.88	30.59	152.67
Gross reserves	0.005	1.95	17.90	21.15	106.83	333.36	326.54	711.00	586.39	848.05
Foreign liabilities	--	--	-12.91	-21.98	-105.22	-317.95	-352.79	-470.12	-555.80	-695.38
NFA (nonconvertible)	--	-8.87	-18.57	-17.13	-16.85	26.10	20.62	20.25	36.45	45.27
NFA (rubles)	--	-8.95	-19.80	-17.66	-18.38	13.11	13.25	13.22	13.21	13.54
With Russia	--	-14.62	-28.09	-31.57	-31.63	-2.72	-2.74	-2.86	-2.86	-2.85
Corres. accounts	--	-17.73	-36.20	-39.68	-39.74	-10.83	-10.85	-10.96	-10.97	-10.95
Less: new ruble liab.	--	3.11	8.11	8.11	8.11	8.11	8.11	8.11	8.11	8.11
With other FSU states	--	5.67	8.30	13.90	13.25	15.83	15.99	16.08	16.07	16.39
NFA (other nonconvertible)	--	0.08	1.23	0.53	1.53	12.99	7.37	7.03	23.23	31.72
Net domestic assets	18.22	90.00	110.78	173.16	273.53	307.73	329.70	431.69	580.41	555.26
Net claims on general government	7.12	59.13	54.67	66.68	92.51	116.72	148.33	169.05	283.28	235.47
Net claims on republican budget	6.29	13.86	5.82	10.94	36.85	43.13	8.72	16.00	15.64	8.29
Net claims on other republican account	1.47	5.53	7.12	9.92	9.98	10.19	12.85	18.69	21.60	18.40
Net claims on other government	0.36	40.77	57.53	58.96	64.14	89.60	146.74	141.28	245.97	207.97
Net claims on local government	-0.75	0.59	-5.03	-1.34	-2.03	-1.85	1.43	6.03	15.93	13.77
Net claims on pension funds	-0.25	-1.62	-10.77	-11.80	-16.42	-24.35	-18.55	-12.94	-15.86	-12.96
Credit to economy	8.40	44.85	93.05	140.41	239.08	334.35	375.82	471.75	572.21	668.69
Claims on enterprises	6.88	33.62	69.35	97.87	184.84	243.28	292.15	375.70	432.94	493.91
Claims on private sector	1.52	11.23	23.70	42.53	54.24	91.06	83.67	96.05	139.27	174.79
Other items (net)	2.70	-13.98	-36.94	-33.92	-58.06	-143.33	-194.45	-209.11	-275.08	-348.89
Capital accounts	-1.29	-9.63	-18.42	-37.47	-62.00	-138.37	-141.60	-194.51	-265.96	-357.77
Interbank (net)	1.54	-4.69	-9.08	-17.60	-5.66	-74.70	-53.71	-31.50	-64.82	-67.06
Other net	2.46	0.34	-9.44	21.15	9.61	69.73	0.86	16.91	55.70	75.93
Broad money	18.22	83.08	97.20	155.20	258.28	349.24	324.06	692.81	647.45	753.20
Currency in circulation	1.83	9.44	19.91	36.68	83.09	119.45	128.19	175.52	272.43	345.55
Demand and time deposits	16.39	73.64	77.29	118.52	175.19	229.80	195.87	517.29	375.02	407.65
Domestic currency deposits	16.39	73.64	71.89	111.22	157.29	176.59	152.10	234.21	299.51	330.34
Foreign currency deposits	--	--	5.4	7.30	17.90	53.21	43.77	283.08	75.51	77.31

Source: Data provided by the National Bank of Moldova.

Table 19. Moldova: Factors Affecting Changes in Broad Money, 1992-94

(In millions of lei)

	1992	1993					1994				
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Broad money	64.87	14.12	57.99	103.08	90.97	266.16	-25.18	368.75	-45.37	105.76	403.96
Net foreign assets	-6.92	-6.66	-4.39	2.72	56.75	48.43	-47.15	266.76	-194.09	130.90	156.43
NFA (convertible)	1.95	3.04	-5.83	2.44	13.80	13.46	-41.66	267.13	-210.29	122.08	137.27
NFA (nonconvertible)	-8.87	-9.70	1.44	0.28	42.95	34.97	-5.48	0.37	16.20	8.82	19.16
Net domestic assets	71.78	20.78	62.38	100.37	34.20	217.73	21.97	101.99	148.72	-25.15	247.53
Net claims on general government	52.01	-4.45	12.00	25.84	24.21	57.59	31.61	20.72	114.23	-47.81	118.75
Credit to economy	36.45	48.20	47.36	98.67	95.27	289.49	41.47	95.93	100.46	96.49	334.35
Other items (net)	-16.68	-22.96	3.02	-24.14	-85.27	-129.36	-51.12	-14.66	-65.97	-73.82	-205.56
(In percent of beginning period stock of broad money)											
Broad money	356.04	16.99	59.66	66.42	35.22	320.35	-7.21	113.79	-6.55	16.33	115.67
Net foreign assets	-37.99	-8.01	-4.51	1.76	21.97	58.29	-13.50	83.32	-28.01	20.22	44.79
NFA (convertible)	10.68	3.66	-5.99	1.58	5.34	16.20	-11.93	82.43	-30.35	18.86	39.30
NFA (nonconvertible)	-48.67	-11.67	1.48	0.18	16.63	42.09	-1.57	-0.11	2.34	1.36	5.49
Net domestic assets	394.00	25.01	64.7	64.68	13.24	262.06	6.29	31.47	21.47	-3.88	70.88
Net claims on general government	285.47	-5.36	12.35	16.65	9.37	69.32	9.05	6.39	16.49	-7.38	34.00
Credit to economy	200.07	58.01	48.72	63.58	36.89	348.43	11.87	29.60	14.50	14.90	95.73
Other items (net)	-91.54	-27.64	3.11	-15.55	-32.02	-155.69	-14.64	-4.52	-9.52	-11.40	-58.86

Source: Data provided by the National Bank of Moldova.

Table 20. Moldova: National Bank of Moldova Credit Auctions 1/
(In millions of lei)

	Amount offered	Amount Demanded	Amount Sold	Maximum Minimum Interest Rates (in percent)	At Average Interest Rates (in percent)	Number of Participating Banks	Number of Banks that Bought Credit
1993							
August 19	0.3	...	...	...	...	...	...
September 7	0.2	0.1	0.1	170	170	1	1
October 21	0.5	1.66	0.5	200-195	197.5	8	3
November 8	0.6	2.2	0.6	220-205	210.8	7	4
November 16	1.0	2.65	1.0	250-240	245	12	2
1994							
January 12	1.5	4.92	1.5	290-250	280.8	6	2
January 27	1.5	2.95	1.5	330-310	316	6	3
February 17	5.0	16.5	5.0	400-351	377	7	4
March 24	37.5	41.3	37.5	210-195	205	7	7
April 12	25.0	28.8	25.0	220-150	209	11	11
May 12	16.0	18.0	16.0	200-150	185	7	7
May 31	15.0	16.0	15.0	160-175	164	4	4
June 29	21.0	21.7	21.0	115-125	118	4	4
July 14	16.0	16.7	16.0	79-110	79	9	9
August 5	40.0	41.4	40.0	75-88	75	9	9
September 9	33.0	34.5	33.0	65-75	65	4	4
November 8	7.5	8.5	7.5	43-65	43	5	5
December 13	6.0	6.4	6.0	42-50	42	5	5
December 28	24.5	24.5	24.5	42-45	42	6	6

Source: Data provided by the National Bank of Moldova.

Table 21. Moldova: Consolidated
Government Budget, 1992-94 1/

	1992	1993	1994
(In millions of lei)			
Revenues	43	364	1,353
Tax Revenues	40	326	980
Profit Tax	10	97	351
VAT	14	95	282
Excise	10	63	151
Personal Tax	4	35	130
Foreign Trade	1	19	30
Land Tax	--	14	15
Real Estate	--	--	6
Other taxes <u>2/</u>	0	3	15
Non-Tax Revenues <u>3/</u>	4	38	373
Of which: Road Fees	--	10	61
 Expenditures & Net Lending	 94	 553	 1,984
 Expenditures	 55	 543	 1,873
National Economy	3	27	135
Environment	0	2	8
Social Sphere	35	306	969
Education	14	127	422
Culture	2	10	31
Health Care	7	80	300
Physical Culture	2	1	2
Social Assistance	2	8	29
Subsidies & Cash Compensation	10	80	184
Food Subsidies	7	50	68
Non-Food Subsidies	3	13	47
Cash Compensation	--	18	69
Emergency Aid	--	--	40
Law & Police	5	58	105
Interest	1	23	164
Domestic	1	18	120
Foreign	--	5	44
Capital Expenditures	7	49	120
Other Expenditure <u>4/</u>	2	68	286
Maintenance of Roads	...	10	51
Extrabudgetary balance	--	--	-6

Table 21 (concluded). Moldova: Consolidated
Government Budget, 1992-94 1/

	1992	1993	1994
(In millions of lei)			
Net Lending	39	10	111
Of which: Loan defaults	--	19	49
Grain procurement	--	--	40
Balance	-50	-189	-630
Financing	50	189	430
Net Domestic	50	136	227
Net Banking System	50	110	107
Non-Bank	--	--	9
Arrears	...	26	110
Net Foreign	--	53	403
Drawings 5/	--	54	403
Amortization	--	1	--
Memorandum items:	(In percent of GDP)		
Revenue	20.2	17.1	17.4
Tax revenue	18.5	15.3	12.6
Expenditure and net lending	43.6	25.9	25.4
Expenditure	25.4	25.5	24.0
Balance	-23.4	-8.9	-8.1
(In millions of Md)			
GDP	215	2131	7796
Tax arrears	...	11	252
Unbudgeted net lending 6/	...	43	375
Enlarged deficit	...	-232	-1,005
(in percent of GDP)	...	-10.9	-12.9

Sources: Data provided by authorities; and staff estimates

1/ Includes Republican and local budgets, except the Trans-Dniester region, extrabudgetary funds and the Social Fund.

2/ Includes state tax, forestry tax, privatization tax and natural resource tax.

3/ Includes profit remittances from NBM.

4/ Includes unallocated expenditure.

5/ Includes grants.

6/ Difference between value of foreign commodity loans and grants disbursed to Moldovan enterprises and domestic counterpart funds received by government.

Table 22. Moldova: Consolidated Government Budget, 1992-94
(In percent of GDP)

	1992	1993	1994
Revenues	20.19	17.08	17.36
Tax revenues	18.51	15.27	12.57
Profit tax	4.79	4.57	4.50
VAT	6.65	4.43	3.62
Excise	4.65	2.96	1.94
Personal tax	1.81	1.64	1.67
Foreign trade	0.51	0.89	0.38
Land tax	--	0.66	0.20
Real estate	--	--	0.08
Other taxes	0.09	0.13	0.19
Non-tax revenues	1.67	1.80	4.79
Of which: road fees	--	0.45	0.78
Expenditures and net lending	43.58	25.93	25.45
Expenditures	25.44	25.48	24.03
National economy	1.40	1.27	1.73
Environment	0.09	0.10	0.11
Social sphere	16.28	14.37	12.43
Education	6.33	5.94	5.42
Culture	0.74	0.49	0.40
Health care	3.12	3.77	3.85
Physical culture	0.74	0.06	0.03
Social assistance	0.70	0.35	0.37
Subsidies and cash compensation	4.65	3.76	2.36
Food subsidies	3.30	2.34	0.86
Non-food subsidies	1.35	0.60	0.61
Cash compensation	--	0.83	0.89
Emergency aid	--	--	0.51
Law and police	2.42	2.71	1.35
Interest	0.65	1.09	2.11
Domestic	0.65	0.85	1.54
Foreign	--	0.23	0.57
Capital expenditures	3.07	2.30	1.55
Other expenditure	1.12	3.20	3.67
Maintenance of roads	...	0.45	0.66
Extrabudgetary balance	--	--	-0.07
Social Fund deficit	...	...	-0.18
Net lending	18.14	0.45	1.42
Of which: Loan defaults	--	0.89	0.62
Grain procurement	--	--	0.51

Table 22 (concluded). Moldova: Consolidated Government Budget, 1992-94
(In percent of GDP)

	1992	1993	1994
Balance	-23.40	-8.85	-8.09
Financing	23.40	8.85	8.09
Net domestic	23.40	6.38	2.91
Net banking system	23.40	5.16	1.38
Nonbank	--	--	0.12
Arrears	...	1.22	1.41
Net foreign	--	2.49	5.18
Drawings	--	2.53	5.18
Amortization	--	0.05	--

Sources: Data provided by the Moldovan authorities; and staff estimates.

Table 23: Moldova: Consolidated Government Budget: Decomposition of Revenue and Expenditure, 1992-94

	1992	1993	1994
<u>(In percent of total revenue)</u>			
Revenues	100.00	100.00	100.00
Tax revenues	91.71	89.45	72.42
Profit tax	23.73	26.74	25.90
VAT	32.95	25.79	20.84
Excise	23.04	17.31	11.20
Personal tax	8.99	9.62	9.61
Foreign trade	2.53	5.22	2.19
Land tax	--	3.85	1.13
Real estate	--	--	0.48
Other taxes	0.46	0.74	1.08
Non-tax revenues	8.29	10.55	27.58
Of which: Road fees	--	2.64	4.52
<u>(In percent of total expenditure and net lending)</u>			
Expenditures and net lending	100.00	100.00	100.00
Expenditures	58.38	98.26	94.42
National economy	3.20	4.89	6.79
Environment	0.21	0.38	0.42
Social sphere	37.35	55.44	48.83
Education	14.51	22.91	21.29
Culture	1.71	1.88	1.59
Health care	7.15	14.55	15.13
Physical culture	1.71	0.22	0.12
Social assistance	1.60	1.36	1.45
Subsidies and cash compensation	10.67	14.52	9.27
Food subsidies	7.58	9.01	3.39
Nonfood subsidies	3.09	2.32	2.38
Cash compensation	--	3.19	3.50
Emergency aid	--	--	2.02
Law and police	5.55	10.44	5.29
Interest	1.49	4.20	8.28
Domestic	1.49	3.29	6.05
Foreign	--	0.90	2.23
Capital expenditures	7.04	8.87	6.07
Other expenditures	2.56	12.33	14.40
Maintenance of roads	...	1.72	2.59
Extrabudgetary balance	--	--	-0.28
Net lending	41.62	1.74	5.58
Of which: Loan defaults	--	3.44	2.45
Grain procurement	--	--	2.02

Sources: Data provided by the Moldovan authorities; and staff estimates.

Table 24. Moldova: List of Goods Subject to Excise Taxes and their Rates as of January 1, 1995

Goods Subject to Excise Taxes	Unit of Measurement	Rate in Lei Per Unit
Vodka, liquors and other alcoholic drinks (except for domestically produced hard liquor)	0.5 liter	1.00
Alcohol, except for that used for medical, veterinary and pharmacological purposes	decaliter	30.00
Domestically produced hard liquor	0.5 liter	0.80
Wines of superior quality		
Table wine	0.7 liter	0.30
Dessert wine	0.7 liter	0.60
Ordinary wines		
Table wine	0.7 liter	0.10
Dessert wine	0.7 liter	0.25
Raw materials for:		
Table wine	decaliter	1.50
Dessert wine	decaliter	2.50
Sparkling wine	decaliter	1.70
Wines saturated with carbon dioxide		
Natural	0.75 liter	1.00
Classical	0.75 liter	1.50
Sparkling wine	0.75 liter	0.50
Brandy		
Maturity up to five years	0.5 liter	2.50
Maturity over five years	0.5 liter	4.00
Other wine products and alcoholic beverages	decaliter	5.00
Beer		
In barrels	1.0 liter	0.14
In bottles or cans	0.5 liter	0.10
Tobacco products		
Cigarettes with filter "MT", "TEMP" and imported	one package	0.25
Other cigarettes with filter	one package	0.10
Cigarettes without filter	one package	0.05
Tobacco, fermented and nonfermented	ton	350.00
Jewels with precious metals		
Gold	gram	10.00
Silver	gram	1.10
With diamonds	one carat	170.00
Gasoline	ton	220.00

Sources: Data provided by the Moldovan authorities.

Table 25. Moldova: Quarterly pattern of Revenue, 1992-94

	1992				1993				1994			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(In percent of total annual revenue)												
Revenues	9.60	16.14	21.52	52.75	7.90	12.69	22.35	57.05	13.96	17.87	34.58	33.58
Tax Revenues	7.67	15.70	22.14	54.49	8.26	13.65	22.94	55.15	17.99	19.99	26.46	35.56
Profit Tax	7.98	18.46	15.41	58.15	8.06	14.22	22.38	55.34	19.63	20.43	26.96	32.99
VAT	6.09	14.09	23.71	56.10	9.85	13.93	23.05	53.17	20.29	21.28	27.12	31.31
Excise	7.27	16.94	24.54	51.25	7.74	17.44	22.18	52.64	15.84	14.13	22.37	47.67
Personal Tax	9.03	15.08	22.04	53.85	9.32	12.60	26.03	52.05	15.85	21.93	27.46	34.76
Foreign Trade	3.83	3.06	7.65	10.97	6.90	5.68	8.47	78.95	16.51	23.25	23.16	37.08
Land Tax	19.44	19.44	33.33	27.78	0.25	4.21	40.83	54.72	5.21	9.77	29.29	55.73
Real Estate	--	--	--	--	--	3.57	60.12	36.31	0.47	15.07	33.44	51.02
Other Taxes	48.82	7.10	15.98	28.11	9.55	10.96	26.34	53.15	--	34.36	36.06	29.58
Non-Tax Revenues	29.04	20.53	15.20	35.23	4.75	4.32	17.25	73.68	3.38	12.32	55.91	28.39
Of which:												
Road Fees	--	--	--	--	--	--	20.00	80.00	3.27	23.38	30.05	43.30

Sources: Data provided by Moldovan authorities; and staff estimates.

Table 26. Moldova: Subsidy Expenditures

(In thousands of lei)

	1992	1993	1994
Total	9,980	62,503	114,450
Agricultural	7,133	49,754	67,850
Bread	4,230	36,543	53,609
Milk	1,444	10,736	13,553
Meat	642	391	99
Feed	260	1,676	--
Other	557	408	589
Nonagricultural	2,847	12,749	46,600
Coal	225	6,039	36,902
Gas	35	434	1,768
Housing	977	1,621	--
Transport	941	1,701	25
Trolleys	110	2,955	--
Other	559	--	7,905

Source: Data provided by the Moldovan authorities.

Table 27. Moldova: Social Fund Budget

(In thousands of lei)

	1991	1992	1993	1994
Overall balance	124	3,445	30,461	21,213
Total revenues	2,157	15,060	123,916	473,608
Payroll tax	1,353	14,455	112,905	406,296
Fines, penalties	3	105	1,408	14,318
Revenues from government budget	801	500	7,909	46,887
Other (interest, etc.)	--	--	1,694	6,107
Expenditures	2,033	11,615	93,455	452,395
Total pensions	1,245	8,633	83,263	349,271
Old age	1,100	7,900	75,917	312,287
Working	60	384	3,741	20,903
Military	29	98	960	3,481
Disability	56	251	2,645	11,600
Total allowances	788	2,935	9,515	98,593
Children under 1.5 years	98	698	3,939	10,659
Children 6-16 years	282	1,099	2,704	11,357
Single mothers	22	56	357	790
Child support	1	3	27	68
Other	193	175	--	75,719 ^{1/}
Employment Fund	--	36	550	3,726
Unemployment benefits	--	15	262	1,770
Retraining	--	3	46	758
Current expenditures	--	18	242	1,199
Operating expenses	0.4	11	127	805
Employment Fund	...	...	73	304
Social Insurance Fund	...	...	21	106
Office expenditures	...	...	22	157
Travel expenses	...	...	2	14
Equipment	...	...	8	214
Capital repairs	...	...	0	0
Other expenditures	...	...	1	10
Memorandum items:				
Payroll tax arrears at end-year	342	5,605	59,050	264,362
Pension arrears at end-year	...	...	...	105,000

Source: Data provided by the Moldovan authorities.

^{1/} Includes heating subsidies and also workmen's compensation, maternity benefits, vacation allowances, and other expenditures.

Table 28. Moldova: Balance of Payments, 1992-94

	1992	1993	1994				1994
	Year	Year	Q1	Q2	Q3	Q4	Year
(In millions of U.S. dollars)							
Current account balance	-39	-182	-56	15	-60	-83	-183
Non-FSU	-22	-8	-23	38	-38	-22	-45
FSU	-17	-174	-32	-23	-22	-61	-139
Trade balance	-37	-180	-43	25	-41	-69	-128
Non-FSU	-20	-35	-22	38	-29	-17	-31
FSU	-17	-144	-21	-14	-12	-51	-98
Total exports	868	451	113	174	166	163	617
Non-FSU 1/	185	174	21	88	36	63	208
FSU	683	277	92	87	130	99	408
Total imports	-905	-631	-157	-150	-207	-231	-745
Non-FSU	-205	-210	-44	-49	-65	-81	-239
FSU	-700	-421	-113	-100	-142	-150	-506
Of which: Energy	-328	-242	-89	-49	-72	-73	-284
Balance of services 2/	-2	-24	-16	-15	-22	-23	-77
Non-FSU	-2	5	-4	-6	-12	-14	-36
Of which: Interest (net)	--	-2	--	-1	--	-3	-4
FSU 3/	--	-29	-11	-9	-10	-10	-41
Of which: Energy transportation	...	-25	-11	-7	-10	-8	-35
Interest (net)	--	--	-1	-1	--	-2	-5
Transfers	--	22	3	5	4	9	22
Capital account	34	117	70	18	77	135	300
Non-FSU (net) 4/	34	62	15	-12	68	101	171
Of which: Direct investment (net) ...	...	14	6	6	6	6	23
Commercial bank (net)	...	-11	--	-56	49	--	-5
Medium- and long-term loans	...	...	...	...	...	...	...
Disbursement	--	69	18	39	13	93	163
Amortization	--	--	--	--	--	--	--
Short-term loan (net)	1	-8	--	--	--	--	--
FSU 5/	...	55	55	31	9	34	129
Of which: Disbursements	--	10	10	1	--	2	12
Amortization	--	--	--	--	--	--	--
Commercial bank (net)	...	-7	--	--	-3	-2	-6
Interenterprise arrears (net) 6/	...	51	46	30	12	34	122
Errors and omissions	-9	34	-27	-21	-11	-29	-88
Overall balance	-14	-31	-13	12	6	23	28
Financing	14	31	13	-12	-6	-23	-28
Fund financing	--	87	--	25	14	32	71
Gross official reserves	-2	-74	10	-37	-13	-61	-102
Other assets 7/	--	--	--	--	-7	6	-1
NBM correspondent accounts utilization (net) 8/	19	19	3	--	--	--	4
Memorandum item:							
Gross official reserves 9/	2	77	67	104	118	179	179
Months of imports	--	1	1	2	2	3	3

Sources: Data provided by the Moldovan authorities; and staff estimates.

1/ For 1994, includes substantial once-off exports.

2/ Includes CIF-FOB adjustments and reclassification of energy transportation.

3/ An interest payment due to Russia in Q4 1993 was delayed to Q1 1994. An interest payment due to Russia in Q3 1994 was delayed to Q4 1994. Moldovan claims against other FSU states are nonperforming.

4/ Includes commodity loans.

5/ A "technical credit" from Russia was transformed in to a government loan valued at US\$71.34m (US\$88.9m including Transnistria).

6/ As of end 1994, the outstanding stock of arrears, primarily for energy imports, was estimated to be about US\$140m including valuation adjustments.

7/ Includes government foreign currency holdings.

8/ Non-interest-accruing cross-claims among FSU central banks.

9/ Official reserves in convertible currencies at current exchange rates.

Table 29. Moldova: Energy Imports

(In thousands of lei)

	1991	1992	1993	1994				1994
				Q1	Q2	Q3	Q4	
Total energy imports	1,268	60,406	475,440	299,019	175,882	239,977	358,840	1,073,719
Coal	139	6,645	84,904	49,819	49,776	81,095	65,960	246,650
Volume (thousand tons)	4,196	2,060	1,986	456	568	956	800	2,779
Unit price (lei/ton)	0.03	3.23	43	109	88	85	82	89
Natural gas	110	3,559	66,670	149,045	61,517	59,756	199,546	469,865
Volume (million cubic meters)	2,208	1,972	1,469	488	189	181	587	1,445
Unit price (lei/ thousand cubic meter)	0.05	1.80	45	306	325	330	340	325
Fuel energy	1,019	50,201	323,866	100,155	64,589	99,125	93,334	357,204
Volume (thousand tons)	3,585	3,102	1,670	244	152	225	206	826
Average unit price (lei/ton)	0.28	16	194	411	425	440	454	432
Heating oil	287	26,394	112,635	23,482	19,985	26,568	29,019	99,054
Volume (thousand tons)	1,651	1,952.50	1,000	105	90	122	120	436
Unit price (lei/ton)	0.17	13.52	113	224	223	218	242	227
Diesel fuel	356	13,706	124,211	49,420	21,119	35,006	27,470	133,014
Volume (thousand tons)	990	699.80	400	95	36	59	46	235
Unit price (lei/ton)	0.36	19.59	311	523	590	595	593	565
Benzene	332	8,504	61,654	20,102	14,487	21,620	23,012	79,222
Volume (thousand tons)	725	364.50	200	38	22	33	34	128
Unit price (lei/ton)	0.46	23.33	308	525	647	657	669	619
Other fuel energy	43.7	1,597	25,367	7,151	8,997	15,931	13,834	45,914
Volume (thousand tons)	219.5	84.80	70	6	4	12	5	27
Average price (lei/ton)	0.20	18.84	361	1,212	2,194	1,362	2,767	1,720

Sources: Data provided by the Moldovan authorities; and staff estimates.

Table 30. Stock of External Debt by Creditor ^{1/}
(Disbursement Basis)

	1993	1994
(In millions of US dollars)		
Outstanding Stock of Debt	256	504
(In percent of total)		
Creditors		
Multilateral		
Fund	34	32
World Bank	11	19
European Union	12	13
Bilateral		
Russia	32	19
United States	8	8
Japan	0	6
Romania	2	3
Other	0	1

Source: Moldovan authorities and staff estimates.

^{1/} Includes use of Fund Resources.

Moldova: Fiscal Issues

1. Coverage of the State Budget

The budget system in Moldova operates at the local and the republican levels, with the state budget consolidating the two. Tax and non-tax revenues collected in a given category of revenue are allocated on an annual basis between the local and republican budgets. The local budget is further divided into 10 cities and 44 districts with each category of revenue allocated differently between the cities and districts. For example, 30 percent of profits taxes are allocated to cities and districts and the balance goes to the republican budget; 30 percent of VAT revenues go to cities and districts; 100 percent of individual income taxes are retained by cities and districts. All the excises and foreign trade taxes go to the republican budget.

The republican budget is responsible for, among other things, defense, internal security, science, foreign affairs, some of the subsidies, investment financed from the budget, and support for enterprises. Local budgets, on the other hand, are responsible for financing local expenditures, including health, education, and also some subsidies.

With an estimated 17 percent of total state budget revenues in 1991, the Transnistria is an important economic region of Moldova. Given the disruption of fiscal relations between it and the rest of Moldova, republican and local budgets are presented by the authorities including Transnistria but actual budget performance data exclude the region.

2. The budget process

a. Planning and preparation

Budget preparation for the coming year normally starts the preceding May with submission to ministries of a budget circular prepared by the Ministry of Finance. The Ministry draws up a budget on the basis of submissions from line ministries, and revises individual ministries' initial spending proposals to ensure that they conform with limitations on total spending.

In making their submissions, ministries request funding for capital investment as well as current expenditures. Requests for capital projects receive detailed consideration in the Ministry of Finance which decides on priorities and, where possible, applies profitability criteria in selecting projects. It appears that some portion of funding for capital projects by spending ministries is, however, arranged directly with banks, and is not included in the budget. As a result, it is possible that some government expenditure financed by borrowing (i.e., arranged directly with banks) may not be reflected in the budget.

At present, the Ministry of Finance lacks adequate independent capability to make macroeconomic projections, design a macroeconomic

framework, or formulate contingency plans. Forecasts of macroeconomic magnitudes, such as prices, economic growth, and unemployment, are carried out in several different ministries, including the Ministry of Economy.

Given the macroeconomic instability that has characterized the Moldovan economy since 1991, budget projections are updated frequently and substantially. This tends to limit the usefulness of the budget as a planning device. The 1993 budget, for example, was based on the macroeconomic framework conceived in November 1992 and was only approved in February 1993 by which time the macroeconomic situation had already changed. Another version of the budget, however, was not passed by Parliament until August 1993.

b. Budget implementation

Prior to 1993, a line of credit was opened for each spending ministry within the limit of its budget appropriation. The Central Accounting Office of the Ministry of Finance made quarterly authorizations of credit to different ministries in amounts equal to the total quarterly appropriation in the budget for that ministry. Credit authorizations were made in total without specifying particular expenditures that an individual ministry planned for the quarter. Cash balances on hand were taken into account in determining quarterly allocations of credit and on rare occasions the Ministry of Finance transferred cash balances from one account to another. After the authorization of credit was made, the Ministry played no subsequent role in the expenditure process of line ministries for the quarter in question. The Ministry of Finance did not receive formal monthly reports from ministries on expenditure commitments, unpaid bills, or new obligations, and it exerted little control over these transactions.

The difficult financial situation that began in 1992 required the replacement of the quarterly expenditure authorization process with a monthly system of cash management. Line ministries make monthly requests for funds to the Ministry of Finance, which conveys its authorization of credit for payment to the Central Accounting Office after an ad hoc process that considers available revenues and expenditure priorities. This office then authorizes credit to the bank of the ministry concerned. Although the Ministry of Finance specifies expenditures that the monthly allocation of credit is supposed to finance, the allocation itself is made in block form, and, in any event, it affects the payment stage rather than the commitment phase. This also represents the end of the Ministry of Finance's involvement with the line ministries' expenditure process.

Thus, even under the revised system, in which expenditure authorizations are made on a monthly basis, Ministry of Finance personnel must rely on expenditure reports from line ministries, which are not always timely, to ascertain the type of expenditures made and even the overall amounts. As a consequence, the only practical way to monitor the overall deficit on a timely basis is from financing data.

3. The revenue system

The state budget in Moldova relies on four major revenue sources. The enterprise profit tax is the most important source of revenues as it yielded some 26 percent of total revenues in 1994. The second most important source of revenues is the Value Added Tax (VAT), which yielded some 21 percent of total revenues in 1994. The two other important revenue sources are excise taxes (11 percent of total revenue in 1994) and the personal income tax (10 percent of total revenues in 1994). In addition, there are several other sources of revenue, such as import tariffs and the road tax, which generated only a small portion of revenues in 1994.

The Moldovan authorities began a major tax reform in 1992 with the introduction of the VAT and excise taxes and a restructuring of the individual income tax. The reform was continued in 1993, largely through the introduction of several new taxes, such as the road tax and import tariffs, and through extension of the base of the VAT and excise taxes. As the number of taxes has increased, tax administration has become more difficult owing in part to the continuation of high inflation.

a. Enterprise profit tax

The tax on enterprise profits was modified in January 1991 when rates and concessions granted to certain enterprises were changed. However, the structure of the tax has not undergone substantial changes. Profits for the purpose of the tax are calculated under statutory accounting rules which differ in a number of respects from those in industrialized countries.

Certain expenses, including wages and salaries in excess of specified norms, fines, all interest expenses other than interest on short-term bank credits, annual bonuses, and payment for water usage by industrial enterprises in excess of norms are not deductible. In addition, no provision is made for carryover of losses. Full exemption is granted to certain consumer cooperatives, social organizations, cooperatives employing 70 percent or more elderly workers, certain civilian production of the defense industry; partial or full exemption for up to two years, is also granted to certain producer cooperatives and enterprises.

Profits of enterprises are taxed at 25-32 percent for the most part. However, a wide variety of tax rates apply to different enterprises and activities such as banks and insurance companies, joint ventures with foreign capital, sports and cultural activities, entertainment activities, etc. The rate applicable to farming enterprises is only 1.5 percent. In addition, an excess profit tax of 70 percent is applicable when the profit rate exceeds, by a factor of two or more, the norms for the sector established by the Government. The tax provides for a withholding of taxes on interest, dividends and share participation received by Moldovan residents. The tax treatment of capital gains, interest and dividends is not clearly specified.

b. VAT

The VAT was introduced in Moldova, as well as in other CIS states, in January 1992 at a rate of 28 percent. The rate was subsequently lowered to 20 percent in early 1993. Initially the coverage of the VAT was broad and included domestic sale of most goods, including food and medicine. However, on January 10, 1992, the rate was reduced to 14 percent on potatoes, children's food, and sour cream. Additional concessions for butter, some cheese and meat were made and the rate was reduced to 15 percent on March 10, 1992. Municipal transport services, rents, financial services, sale of postage stamps and services provided by specified education, cultural and religious services are exempted from the tax. With effect from July 1, 1992, a number of children's goods were exempted from the VAT, including non-food products, school products (notebooks, pencils, etc.), textbooks and toys. The VAT was extended to include non-CIS imports in November 1993, although administrative difficulties precluded implementation at that time.

c. Excise taxes

Excises were first introduced in August 1991 for a small number of commodities (vodka, beer, electronic goods, and jewelry). ^{1/} In 1992, the coverage was widened considerably to include wine, raw materials for making champagne, champagne, tobacco, carpets, essential oils and perfume, clothing, and natural leathers. In February 1993 an excise tax was imposed on natural gas. In December, the list of goods subject to excise taxes was increased to include non-CIS imports at current domestic rates. In the 1994 budget, which was passed in December 1993, an excise tax on gasoline was imposed. The success in collecting these new excises during 1994 was mixed, however, in part on account of the natural calamities and the severe liquidity constraints of many enterprises, and the list of exciseable commodities and the effective rates of tax were reduced significantly for 1995, in the context of the 1995 budget (please see Table 24).

d. Individual income tax

The individual income tax distinguishes between income from full-time work, and income from other work. The tax for full-time work applies at progressive rates that rise from 10 percent to 70 percent. An exemption of one minimum wage is available for primary wage incomes. Higher exemptions are available for certain categories of taxpayers such as families with several children, veterans, or invalids. A different set of rates applies to wages from second jobs, or to individual incomes from other sources. These incomes are taxable at progressive rates ranging from 2 percent to 70 percent. At about 10 percent of GDP in 1994, the expected burden of taxation on individuals in Moldova is low compared with that in many European countries.

^{1/} Excises on brandy were subsequently added in November 1991.

e. Other taxes

Several taxes were introduced in 1993. A land tax was passed in February 1993 that stipulated various flat rates per hectare depending on the location of the land. The rates were adjusted twice during the year in an effort to maintain tax revenues in the face of high inflation. A road use bill was passed in June 1993 that contains various taxes on the purchase of motor vehicles and also road use fees. Import taxes were imposed in November 1993 with rates ranging from 5 percent to 70 percent. ^{1/} Finally, in late 1993 several other taxes were imposed such as a tax on the physical assets of enterprises, and profit taxes on banks and insurance activities.

4. Expenditure Issues

a. Structure

(1) Social sphere

The structure of expenditures in Moldova is heavily oriented toward social sectors. Expenditures in the social sphere in 1994 were some 12.5 percent of GDP, or about 49 percent of total expenditures and net lending. Social expenditures in the state budget together with social security expenditures represented about 18 percent of GDP. The largest components of social spending are for education and health programs.

(2) Subsidies

Budgetary subsidies are the next most significant element of social expenditures. While the amount of budgetary subsidies is large, it represents only part of the total extent of subsidies in the Moldovan economy. Other subsidies take the form of cross subsidization and tax preferences and exemptions (particularly from the enterprise profit tax and the VAT), which are heavily biased in favor of the agriculture sector. The most significant budgeted subsidies were for bread and milk products, which accounted for some 76 percent of all budgeted subsidies expenditures in 1993 (Table 26). Non-agricultural subsidies, such as gas, coal, and public transportation, accounted for 20 percent of budgeted subsidy expenditures in 1993. Subsidies on foodstuffs were eliminated in the first half of 1994.

(3) Capital

At about 6 percent of total expenditures in 1994, capital expenditures appear low in relation to current expenditures. The fall in capital investment from 9 percent in 1993 is the result of postponing many

^{1/} Import taxes existed before this date but were levied at the exchange rate of Rub 1.8 to US\$1, which made them ineffective in generating revenue. These tariffs were abolished with the imposition of the customs law in November 1993.

investment projects. These capital expenditure figures, however, could understate the full extent of investment by the Government because, as already noted, they might exclude expenditures financed by bank credit arranged by line ministries independently of the Ministry of Finance. The Ministry of Finance, which is responsible for selecting capital projects funded from the budget, applies profitability criteria in selecting projects in the productive sector, giving priorities for capital projects in the social sector, which receives 60 percent of the total capital expenditure resources from the budget.

(4) Other expenditures

Other important outlays include expenditures on defense, internal affairs, and national security. Interest payments on foreign debt became more significant in 1994, rising to 2.1 percent of GDP in 1994, from 1.1 percent in 1993.

b. Institutional

The system of expenditure control in the Government suffers from important weaknesses. Line ministries appear to have the authority to enter into expenditure commitments, to accumulate cash balances and arrears and to contract loans, without the approval, and sometimes without the knowledge of the Ministry of Finance. In addition, the system of accounting and reporting of the line ministries is not sufficiently detailed or prompt to provide a timely and comprehensive overview of the extent of new expenditure commitments, credit extended and arrears accumulated to the Ministry of Finance.

5. Extrabudgetary funds

There are currently seven extrabudgetary funds in Moldova. They are the Social Security Fund (SSF), the Science Fund, the Livestock Fund, the Military Conversion Fund, the Capital Investment Fund, the Foreign Currency Fund and the Social Assistance Fund (SAF). The SSF, the most important of the extrabudgetary funds, administers pensions, family indemnities, and unemployment benefits and is funded by a payroll tax, which as of January 1, 1994 was 38 percent for the majority of enterprises. The Military Conversion Fund is to be funded by expenditure savings from the reduction of the military; its expenditures are to be utilized to assist the re-entry of erstwhile soldiers into society. The fund has not functioned yet. The Capital Investment Fund is to be funded by proceeds from privatization and expenditures would be used to fund investment projects that have been delayed by budgetary cuts. The fund has not yet functioned as the privatization program has only just started.

Tax	Nature of Tax	Deductions and Exemptions	Rates
1. <u>Value-added tax</u> (VAT)	<p>Value added or the difference between the selling price of goods and services and costs of purchased inputs. Non-CIS imports are taxed. Non-CIS exports are zero-rated. CIS exports are taxed and CIS imports are exempted. A discount of 30% of VAT applies to goods sold to CIS countries if the enterprise repatriates convertible foreign exchange earnings within 30 days of the export transaction. Purchasers of capital goods do not receive immediate credit for VAT on these goods but must depreciate VAT inclusive price over a period of years.</p> <p>There is a threshold of 400 times the minimum wage.</p>	<p>There are a variety of exemptions from the VAT: municipal transport services, rents, financial services, sale of postage stamps, and services provided by specified education, cultural and religious institutions, mixed feed for livestock, grains, bakeries and breadshops of the Ministry of Agriculture, editorial offices of papers and magazines (published in Moldova), the Department of Printing Works and Booksale, the Republican Orthopedic Center, tickets to sanatoriums, stone extracting, creative artistic unions, certain children's goods including nonfood products for children, school supplies, textbooks for school children, books for children, toys, and periodicals for children, construction and assembly in other countries that allow VAT exemption, and natural and liquid gas sales.</p>	<p>A basic rate of 20 percent applies up to the manufacturing level (measured in the standard way) and a rate of 16.67 percent applies on wholesaling and retailing on gross margin (margin is limited to 20 percent on some goods).</p> <p>Special rates apply to certain goods. A rate of 14 percent applies to potatoes, children's food, and gas. A rate of 15 percent applies to butter, some cheeses and meat.</p>
2. <u>Excise tax</u>	<p>Sales of alcoholic beverages, raw materials for alcoholic beverages, tobacco and tobacco products, jewelry, and gasoline. Taxes are paid on domestic production and exports to CIS countries.</p>	<p>No enterprises are exempt.</p>	<p>Representative rates:</p> <p>Vodka and other liquors - MDL 2.0 per liter</p> <p>Alcohol - MDL 30.00 per decaliter</p> <p>Domestic hard liquor - MDL 1.60 per liter</p> <p>Beer in bottles - MDL 0.20 per liter</p> <p>Beer in barrels - MDL 0.14 per liter</p> <p>Wines - MDL 0.10-0.60 per 0.7 liter</p> <p>Raw materials for wine - MDL 1.5-2.5 per decaliter</p> <p>Wines w/ carbon dioxide - MDL 0.5-1.00 per 0.75 liter</p> <p>Brandy - MDL 5.00-8.00 per liter</p> <p>Other alcoholic beverages - MDL 5.00 per decaliter</p> <p>Cigarettes - MDL 0.05-0.25 per package</p> <p>Raw tobacco - MDL 350.0 per ton</p> <p>Gasoline - MDL 220.0 per ton</p> <p>Gold jewelry - MDL 10.0 per gram</p> <p>Silver jewelry - MDL 1.1 per gram</p> <p>Diamond jewelry - MDL 170 per carat</p>

Tax	Nature of Tax	Deductions and Exemptions	Rates
<p>3. <u>Profit tax</u> on enterprises is applied to all the economic entities--judicial persons--on the territory of Moldova, irrespective of the type of ownership, including enterprises with foreign investments and foreign judicial persons exercising the entrepreneurial activity.</p>	<p>Profit gained from the sale of goods and services as determined by the difference between the receipts, excluding the VAT and excise taxes, and production and selling expenses, including production costs.</p> <p>Agricultural enterprises (except for industrial firms, the list of which is being approved by the Government) are not subject to the tax profit gained from marketing their own products or the products of processing enterprises that use the raw materials grown on the same farm (provided the enterprises are included in the balance sheet of the farm).</p> <p>The profit gained from non-agricultural activity of such enterprises is taxed in accordance with the applicable legislation.</p>	<p>1. Taxable profit is decreased by the following amounts:</p> <p>a. Expenditures on capital investments for technical reequipment and reconstruction in the sectors defined as crucial by the Parliament, and on environmental protection, provided depreciation allowances and other resources are exhausted;</p> <p>b. Expenditures on kindergartens, sporting and cultural objects, housing within the determined limits/norms;</p> <p>c. Expenditures on the development of culture, donations to charity funds for philanthropic purposes, and on health to a limit of 1 percent of taxes due;</p> <p>d. The amount of certain banks' nonperforming loans to participants of military actions in 1992 and political repression in the 1917-1990 period, to victims of natural calamities in August 199, and to housing construction cooperatives in 1993 and 1994.</p> <p>e. Enterprises that allocate at least 50 percent of profits to investment can also receive profit tax breaks.</p> <p>f. Other preferences envisaged in decrees of the parliament.</p>	<p>For the first MDL 5000 of profit, the rate is 15 percent. For profit of MDL 5,000 to MDL 10,000, MDL 750 + 25 percent of the amount which exceeds MDL 5,000. For profit of more than MDL 10,000, MDL 2,000 + 32 percent of the amount which exceeds MDL 10,000.</p> <p>If the profitability rate established by the Government is exceeded by two or more times, the super profit is taxed at the rate of 70 percent.</p> <p>For foreign joint ventures, there is a 50 percent reduction of profits tax over the first 5 years from the first year of profit on investments of at least US\$250,000 and if the proportion of income from selling the enterprise's own products is greater than 50 percent.</p>
	<p>There is a limit on the deductions for wages to the equivalent amount of six minimum wages per capita for each employee.</p>	<p>2. Nontaxable profit consists of:</p> <p>a. Profit of registered private and social charity funds, which have been registered in accordance with the established procedure, and their enterprises, if the profit is allocated to these funds for their philanthropic activity;</p> <p>b. Profit of higher and secondary educational establishments, provided it is allocated to improving the working and living conditions of the students and teachers, and to improving the material and technical base of such entities;</p> <p>c. Profit of religious organizations from their sale of religious items;</p> <p>d. Profit of specialized state orthopedic enterprises;</p> <p>e. Profit of enterprises, organizations and societies of blind, deaf, dumb, and invalids if these persons constitute 50 percent of the total number of employees.</p>	

Tax Summary (continued)

Tax	Nature of Tax	Deductions and Exemptions	Rates										
4. <u>Individual income tax</u>	Monthly income of individuals.	<p>According to the law on individual income issued on December 3, 1992, a number of individuals have exemptions:</p> <p>a. Up to five times the minimum wages can be granted to invalids, war heroes, victims of political repression, and pensioners, blind (second group).</p> <p>b. Up to three times the minimum wage can be granted to taxpayers with more than four children, mothers having two or more children under 16, etc.</p> <p>c. The participants of the cleanup of the Chernobl catastrophe; parents and widows of those killed or of those disappeared, and the participants in the Transdenistrian hostilities have a deduction of 50 percent of their monthly income.</p>	<p>Rates are based on the minimum salary (MS), which as of May 1994 was MDL 18 per month.</p> <table><tr><td>Up to 10 MS</td><td>10 percent of the taxable income</td></tr><tr><td>From 10 to 20 MS</td><td>20 percent of the amount exceeding 10 MS</td></tr><tr><td>From 20 to 30 MS</td><td>30 percent of the amount exceeding 20 MS</td></tr><tr><td>From 30 to 50 MS</td><td>40 percent of the amount exceeding 30 MS</td></tr><tr><td>Over 50 MS</td><td>50 percent of the amount exceeding 20 MS</td></tr></table>	Up to 10 MS	10 percent of the taxable income	From 10 to 20 MS	20 percent of the amount exceeding 10 MS	From 20 to 30 MS	30 percent of the amount exceeding 20 MS	From 30 to 50 MS	40 percent of the amount exceeding 30 MS	Over 50 MS	50 percent of the amount exceeding 20 MS
Up to 10 MS	10 percent of the taxable income												
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From 30 to 50 MS	40 percent of the amount exceeding 30 MS												
Over 50 MS	50 percent of the amount exceeding 20 MS												
5. <u>Property tax</u>	Total area of property.	<p>The following categories of people are completely exempt from the payment of property tax:</p> <p>a. All handicapped persons;</p> <p>b. Members of families of servicemen who perished or disappeared while performing the duties of military service;</p> <p>c. Citizens who have attained the age of 60 years (for men) and 55 years (for women) in the absence of able-bodied members in the family;</p> <p>d. Members of families that include persons performing mandatory military service; and</p> <p>e. Citizens who have three or more dependent children.</p> <p>The executive committee of local Councils of People's Deputies has the right to exempt owners (or users) of property fully or partially from the tax.</p>	Average rate of 0.05 percent of property value.										
6. <u>Water fees</u>	Use of water drawn for intrinsic needs from surface and underground resources by enterprises in industry, transport, and construction as well as by agricultural enterprises.	Enterprises of the Prut Fisheries Association of the Ministry of Agriculture are exempt from paying water fees into the budget.	<p>Depending on the source, the following rates are applicable:</p> <p>The Siret, Danube, and Prut Rivers: 0.0006 bani/cu. meter</p> <p>Other rivers: 0.0012 bani/cu. meter</p> <p>Underground sources: 0.0035 bani/cu. meter</p> <p>[Average uniform rate: 0.0033 bani]</p>										

Tax Summary (continued)

Tax	Nature of Tax	Deductions and Exemptions	Rates
7. <u>Land taxes</u>	Areas of properties allocated to enterprises.	Land allocated to sugar plants for sugar beet storage is exempted from the fee.	<p>1. For the land used for agricultural purposes:</p> <p>a. With cadastral indexes MDL 2.17 per one degree-hectare.</p> <p>b. Without cadastral indexes MDL 154.2 per hectare.</p> <p>2. For the land in urban areas:</p> <p>a. The land on which the house is located, the land around the house, and auxiliary constructions of agricultural enterprises: in the cities of Chisinau, Balti, Bender, Tiraspol MDL 10 per 100 m²; in towns MDL 4 per 100 m²; in villages MDL 1 per 100 m².</p> <p>b. For land used for industrial, transportation, telecommunications and other purposes: in the cities of Chisinau, Balti, Bender, Tiraspol MDL 30 per 100 m²; in towns and rural localities MDL 10 per 100 m².</p> <p>3. Orchards and land owned by city dwellers having property in rural areas: in the cities of Chisinau, Balti, Bender, Tiraspol MDL 10 per 100 m²; in towns and rural localities MDL 5 per 100 m².</p>
8. <u>Bank Profits</u>	Profits includes: accrued interest on loans; fees from other banks; commission from services provided to enterprises and other organizations; and foreign exchange operations leasing operations.	<p>Deductions for expenditures on technical reequipment and computerization; culture, charity, social sphere contributions to Social Assistance Fund</p> <p>The National Bank of Moldova is exempt.</p>	The rate is 40 percent of profits.
9. <u>Insurance Profits</u>	<p>Enterprises and organizations that have licenses issued by the State Insurance Committee are subject to the tax.</p> <p>The base of the tax includes insurance payments envisaged in re-insurance contracts; commission for re-insurance operations; hard currency revenues.</p>	Deductions include transfers to institutions of culture, charity funds, the Social Assistance Fund (up to 1 percent of taxable profit).	25 percent.

Tax	Nature of Tax	Deductions and Exemptions	Rates
10. <u>Real Estate</u>	<p>Imposed on the value of the main assets (excluding transportation vehicles) of enterprises and organizations.</p> <p>Paid by juridical persons irrespective of property type or economic activity and by physical persons who own or use real estate in Moldova.</p>		<p>Enterprises and organizations: 1 percent of the value of productive and nonproductive fixed funds, except for the dwelling fund, of enterprises and organizations; 0.5 percent of the dwelling fund, except for that used in the enterprise activity;</p> <p>Physical persons: 1 percent of buildings and constructions used in the enterprise activity; 0.5 percent of the dwelling fund and others.</p>
11. <u>Road tax</u>	Juridical and physical persons, including foreign citizens, who use the roads on Moldovan territory are subject to the tax.	<p>Exemptions: budget-covered organizations; passenger transportation enterprises (except taxis); specialized transportation vehicles bought by disabled persons.</p>	<p>1. For use of roads: a. For juridical and physical persons involved in entrepreneurial activity, the rate is 1.5 percent of the value of marketed goods. b. For storing, trade, and supplying companies, the rate is 0.06 percent of the value of the goods' turnover, exclusive of VAT. c. For juridical and physical persons not involved in entrepreneurial activities: 10 percent of minimum wage for motorcycles; 40 percent of minimum wage for automobiles; 55 percent of minimum wage for automobiles with trailer; 85 percent for trucks or tractors.</p> <p>2. For purchase of vehicles: a. 20 percent of minimum wage for all vehicles except taxis; b. 10 percent of minimum wage for taxis</p> <p>3. A transit tax is levied upon entering the country. It ranges from \$5 for automobiles to \$45 for heavy trucks.</p>
12. <u>Customs taxes</u>	Ad valorem on value of imports from non-CIS countries, excluding those with special free trade agreements and least-developed nations.	Many commodities are exempt.	<p>Rates are being lowered in stages from January 1, 1995. From April 1, 1995 there are six rates, with the maximum rate being 30 percent, although some commodities carry a 50 percent rate, and some alcoholic drinks face a 100 percent rate. Motor cars and other motor vehicles face a 50 percent rate. There is a further rate reduction scheduled for December 1, 1995 which should leave rates ranging from 10 to 20 percent on all goods except certain wines (1.32 or .24 ecu/liter), cigars and cigarettes (30%), furs (50%), certain consumer electronics and motor cars (30%), and arms and ammunition (70%).</p>

Tax Summary (concluded)

Tax	Nature of Tax	Deductions and Exemptions	Rates
13. <u>Social security levy</u>	Payable by employers on total cash wages and regular cash payments to employees, called Wage Fund.	None.	<p>a. 35 percent of the economic agents' wage bill regardless of their type of property or legal structure;</p> <p>b. 15 percent of the economic agents' wage bill, if these employ more than 70 percent disabled workers;</p> <p>c. 30 percent for social organizations that are not involved in production or trade, the Telefilm-Chisinau studio, health resorts, and central and local governments' newspapers and magazines;</p> <p>d. 15 percent for the artists' unions, the Republican Society of Inventors and its regional branches;</p> <p>e. 4.7 percent for societies of invalids and pensioners that are not involved in production or trade; the Red Cross; enterprises of the Society of the Blind and the Society of the Deaf and the invalids' enterprise Bunatate;</p> <p>f. MDL 1.82 per one degree-hectare of farm land;</p> <p>g. 20 percent of individual entrepreneurs' profits;</p> <p>h. 5 percent of total income of individuals working abroad on a contractual basis, except if such individuals work in countries that have reciprocal pension insurance agreements with Moldova.</p> <p>i. An additional contribution of 1 percent of salaries (or profits) is levied as compulsory social insurance.</p>

Source: Data provided by the Moldovan authorities.

Moldova: Exchange System

1. The exchange system

Moldova has notified the IMF of exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1 of the Articles of Agreement. The exchange rate of the Moldovan leu is determined on the Chisinau Interbank Foreign Currency Exchange (CIFCE), which operates five times weekly, normally trading U.S. dollars and Russian rubles and occasionally deutsche mark and Romanian lei.

a. Exchange arrangements and unification of the exchange rate

Up to July 25, 1993, the Russian ruble was legal tender in Moldova and was supplemented by NBM-issued coupons introduced on June 10, 1992. By end-June 1993, coupons accounted for 80 percent of cash in circulation. The official exchange rate against the U.S. dollar was fixed at the value of the Russian ruble against the U.S. dollar as determined by the CBR on the basis of the Moscow Interbank Foreign Currency Exchange Rate.

On July 25, 1993, following the currency conversion by Russia, pre-1993 Russian rubles were withdrawn from circulation and, starting August 1, 1993, 1993-Russian ruble bank notes were bought and sold at exchange bureaus. On August 9, 1993, a distinction was officially introduced between Moldovan rubles and rubles from other countries in the ruble area. The NBM started to quote an official rate of the Moldovan ruble against the Russian ruble, adjusting it periodically to follow developments in the exchange market.

On November 29, 1993, the national currency, the leu (plural lei) was introduced as the sole legal tender of the Republic of Moldova.

The CIFCE, ^{1/} which had started operations at the beginning of the year and was closed shortly thereafter due to a lack of foreign exchange, recommenced operations on October 14, 1993. It was held on a weekly basis until December 1993, when the frequency increased to two and then three times weekly; in February 1995, daily auctions commenced. In the fixing sessions, authorized banks are freely permitted to purchase or sell foreign currency as principal or as agent for any resident or nonresident. A foreign exchange cash market within authorized banks and foreign exchange bureaus has also remained active.

The foreign currency market consists of the fixing sessions of the CIFCE, the interbank market outside of the fixing sessions, and the cash

^{1/} On May 15, 1995, the CIFCE auction rate was MDL 4.531 per US\$1, and MDL 0.91 per Rub 1000; there was no significant difference between the CIFCE rate and the rate on the cash foreign exchange market.

market. All purchases and sales of foreign currency in the fixing sessions take place at the fixing rate.

Immediately after each fixing session, the NBM establishes official buying and selling rates for foreign currencies. For each currency traded in the fixing session, the official buying and selling rates are established by adding and subtracting 1 percent to and from the fixing rate for that currency. For other major convertible currencies, the official buying and selling rates are set by adding and subtracting 1 percent to and from the midpoint exchange rate for the currency against the leu calculated on the basis of the most recent exchange rate for that currency against the U.S. dollar and the dollar/leu rate established in the fixing session.

The official rates are used for exchange transactions between the National Bank and the Government and for customs and valuation purposes. Outside of the fixing sessions, authorized banks engage in spot exchange transactions at freely-negotiated rates; moreover, banks and exchange bureaux may freely purchase and sell foreign currency cash and travelers checks outside of the fixing sessions although their buying and selling rates for such transactions may not exceed a 10 percent margin.

Since the introduction of the leu the cash market exchange rate has closely followed the official market, albeit with infrequent periods of divergence. The spread between the CIFCE exchange rate and the average cash market rate ^{1/} has, on occasion, been greater than 2 percent.

b. Surrender requirement

Until January 17, 1993, all exporters were required to surrender 35 percent of export earnings to the NBM at the official exchange rate. On November 15, 1994, the surrender requirement was abolished and replaced by a repatriation requirement.

c. Laws and regulations of foreign currency transactions

The legal framework for foreign exchange control in Moldova is set out in Presidential Edict No. 6 of January 13, 1994, and in the Regulation on Currency Control in the Republic of Moldova, approved by the Administrative Council of the National Bank on January 13, 1994. The framework allows residents to purchase foreign exchange for the purpose of making payments for most current international transactions and also seeks to ensure that nonresidents may repatriate earnings.

Nevertheless, Moldova continues to avail itself of the transitional arrangements of Article XIV, Section 2 of the Fund's Articles. Moldova maintains the following exchange measures under Article XIV, Section 2: 1) an exchange restriction arising from the limitation on the right of resident legal entities to make advance payments to countries outside of the former

^{1/} Average between buying and selling rates.

Soviet Union for the import of goods and services; 2) exchange restrictions arising from limitations on the right of resident individuals to make payments for a variety of current international transactions to countries outside of the former Soviet Union; and 3) exchange restrictions arising from the National Bank's system of correspondent accounts with FSU central banks other than the Central Bank of Russia. Payments and transfers for current international transactions vis-à-vis other countries of the former Soviet Union may be freely made in Moldovan lei or in the currency of the other FSU country and are generally effected between foreign and domestic commercial banks, without resort to the correspondent accounts between the central banks of the other states.

While the Parliament has ultimate authority in the area of foreign exchange arrangements, the NBM is responsible for managing the national foreign exchange reserves, regulating the currency market, and granting licenses to commercial banks to engage in foreign currency transactions.

Private citizens, businesses, and organizations may open foreign currency accounts and hold certificates of deposit at authorized banks, which they can use at their own discretion. The source of foreign exchange is not subject to investigation. Nonresident entities holding foreign currency deposits at authorized banks can freely transfer them abroad or sell them to an authorized bank if the funds were transferred from abroad or if they were received in Moldova in payment for a current international transaction within six months from the date of the transfer. 1/ Workers' remittances are not subject to mandatory repatriation, as long as the workers are still living abroad. All other foreign exchange earnings from services rendered abroad must be repatriated within 30 days of completion of the service.

Foreign currency transactions must be conducted by authorized banks or foreign exchange bureaus. The latter were approved in late September 1992 by the Administrative Board of the NBM. A foreign exchange bureau is a legal entity authorized by the NBM to purchase and sell foreign exchange in cash and traveler's checks. It can purchase, without limit, bank notes and traveler's checks from resident and nonresident persons in any currency recognized by the NBM.

Payments for current international transactions do not require a license or authorization from the NBM, with the exception of payments to countries outside of the former Soviet Union for the import of goods or services whose value exceeds \$20,000, for which an advance payment of at least 30 percent is required. Citizens can freely purchase \$1,000 for each trip abroad, with no limit on the amount taken abroad per calendar year.

1/ Nonresidents from countries within the former Soviet Union may not use the proceeds on such accounts to purchase "hard" currency in Moldova.

All capital account transactions require licenses from the NBM.
Foreign currency earnings of residents must be deposited in the residents' accounts at authorized banks.

Table A1: Direction of Trade, 1992-93

	<u>Exports</u>		<u>Imports</u>	
	1992	1993	1992	1993
<u>(In millions of U.S. dollars)</u>				
Total	868	451	-905	-631
Of which:				
FSU	683	277	-700	-421
Non-FSU	185	174	-205	-210
<u>(In percent of total)</u>				
FSU				
Russia	41.2	33.8	44.8	32.9
Ukraine	20.5	12.3	15.0	19.2
Belarus	4.6	3.4	10.0	4.8
Uzbekistan	1.6	0.5	1.6	0.3
Kazakhstan	2.0	1.3	0.8	1.4
Georgia	0.5	0.1	0.4	0.1
Azerbaijan	2.0	6.1	1.2	5.8
Lithuania	1.3	0.7	0.9	0.3
Latvia	0.9	0.4	0.4	0.3
Kyrgyzstan	0.6	0.2	0.2	0.4
Tajikistan	0.2	0.1	0.1	0.1
Armenia	0.3	0.0	0.2	0.1
Estonia	0.3	0.4	0.1	0.3
Turkmenistan	2.8	1.9	1.8	0.9
Non-FSU				
Germany	1.1	3.4	2.5	4.4
Rumania	13.9	23.6	8.3	12.7
Austria	0.1	0.2	0.5	0.5
Bulgaria	1.8	3.7	2.6	0.9
Hungary	0.4	0.7	0.2	1.3
United Kingdom	0.0	0.2	0.1	1.0
Italy	0.2	1.4	0.8	1.6
Czechoslovakia, former	0.1	0.2	0.2	0.1
Poland	0.4	0.2	0.5	0.4
Canada	0.3	0.0	0.0	0.4
France	0.1	0.0	0.2	1.0
United States	0.0	0.2	4.8	2.7
Others	2.9	4.8	1.9	6.2

Source: Moldovan authorities.

Table A2: Total Exports to Countries of the Former Soviet Union

(In thousands of lei)

	1991	1992	1993
Agricultural products and processed food	3,200.7	16,398.9	46,618.7
Grape wine	219.7	1,646.2	7,845.4
Volume (thousand decaliters)	12,600.2	9,542.0	...
Price (lei/decaliters)	--	0.2	...
Vodka and spirits	63.5	447.2	...
Volume (thousand decaliters)	372.1	369.4	...
Price (lei/decaliters)	0.2	1.2	...
Cognac	171.9	286.9	...
Volume (thousand decaliters)	435.2	324.6	...
Price (lei/decaliters)	0.49	0.9	...
Meat and products	192.2	2,889.6	41,592.6
Volume (ton)	32,183.7	28,070.9	28,878.6
Price (lei/ton)	6.0	0.1	...
Canned fruit	300.6	2,000.9	25,876.1
Volume (million standard cans)	337.1	213.8	226.7
Price (lei/thousand standard cans)	0.9	9.4	...
Milk and milk products	188.2	1,154.1	...
Volume (thousand tons)	102.3	145.2	...
Price (lei/ton)	1.8	8.0	...
Other	2,064.6	6,974.0	...
Industrial goods	2,663.6	20,140.9	...
Fermented tobacco	566.8	2,638.4	...
Volume (thousand tons)	43.0	18.9	...
Price (lei/ton)	13.2	139.6	...
Wine-making materials	501.6	1,564.6	10,645.9
Volume (thousand decaliters)	1,2145.0	16,376.4	6,559.2
Price (lei/decaliters)	--	0.1	...
Cotton fabrics	235.0	680.2	108.9
Volume (million running meters)	47.4	16.7	...
Price (lei/million running meters)	5.0	40.7	...
Centrifugal pumps	109.3	1,951.3	24,246.1
Volume (thousand units)	77.4	61.6	...
Price (lei/thousand pumps)	1.4	31.7	...
Tractors	99.2	1,787.1	21,128.8
Volume (in units)	5,878.0	5,253.0	...
Price (thousand lei/unit)	--	0.3	...
Other	1,151.7	11,519.3	...
Consumer goods	1,944.7	11,301.9	...
Cotton fabrics	495.9	...	...
Volume (sq. meters)	72,101.1	...	...
Price (lei/unit)	--	...	...
Tobacco	517.2	3,230.3	34,536.8
Television sets	134.7	2,042.6	10,526.4
Volume (thousand units)	96.5	105.5	87.5
Price (lei/unit)	1.39	19.4	...
Gold articles	284.7	808.8	261.1
Knitwear	110.5	669.4	4,047.7
Volume (thousand units)	13,886.3	10,864.9	...
Price (lei/unit)	--	0.1	...
Other	401.7	4,550.8	...
Total exports (c.i.f.)	7,809.0	47,841.7	...
Total exports (f.o.b.)	7,418.6	...	...

Source: Moldovan authorities.

Table A3: Total Imports from Countries of
the Former Soviet Union 1/

(In thousands of lei)

	1991	1992	1993
Energy products	1,354.9	40,613.4	480,800.8
Industrial goods	4,833.8	24,248.4	
Ferrous metals	188.6	2,956.4	14,972.9
Volume (thousand tons)	335.5	141.5	55.6
Price (lei/ton)	0.6	20.9	...
Fabrics	576.6	1,809.5	4,945.0
Volume (thousand tons)	66.5	22.1	...
Price (lei/ton)	8.6	168.5	...
Fibers and threads	186.9	1,516.8	...
Volume (thousand tons)	18.4	9.0	...
Price (lei/ton)	10.25	168.5	...
Other	3,881.7	17,965.7	...
Consumer goods	1,048.6	9,067.9	...
Potatoes	50.9	513.2	667.6
Volume (thousand tons)	28.5	36.0	8.7
Price (lei/ton)	1.8	14.3	...
Fish	50.4	204.1	1,964.5
Volume (thousand tons)	19.9	5.4	3.0
Price (lei/ton)	2.5	37.8	...
Margarine	12.6	44.3	...
Volume (thousand tons)	2.1	2.0	...
Price (lei/ton)	6.0	22.2	...
Milk products	10.3	38.4	...
Volume (thousand tons)	7.5	2.4	...
Price (lei/ton)	1.4	16.0	...
Salt	3.8	44.6	...
Volume (thousand tons)	26.8	18.7	...
Price (lei/ton)	0.1	2.4	...
Bicycles	10.1	85.5	255.1
Volume (thousand units)	39.6	34.6	1.4
Price (lei/unit)	0.3	2.5	...
Television sets	33.5	115.9	...
Volume (thousand units)	22.4	7.0	...
Price (lei/unit)	1.5	16.6	...
Refrigerators	32.3	141.5	...
Volume (thousand units)	47.2	12.7	...
Price (lei/unit)	0.7	11.1	...
Other	844.7	7,880.4	...
Total imports (c.i.f.)	7,237.3	73,929.7	...
Total imports (f.o.b.)	6,875.4	...	...

Source: Moldovan authorities.

1/ Excluding Transnistria.