

**Macro-financial assistance for the Republic of Moldova
Grant from the European Union of up to EUR 90 million**

MEMORANDUM OF UNDERSTANDING

between

THE REPUBLIC OF MOLDOVA

and

THE EUROPEAN UNION

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**MEMORANDUM OF UNDERSTANDING
BETWEEN THE REPUBLIC OF MOLDOVA
AND THE EUROPEAN UNION**

1. On 20 October 2010, the European Parliament and the Council of the European Union adopted a decision to make available to the Republic of Moldova (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 90 million in the form of a grant (Decision n° 938/2010/EU¹). The assistance shall apply for two years and six months starting from the first day after the entry into force of the Memorandum of Understanding (hereinafter MoU).

The objective of this assistance is to ease the Country’s external financing constraints, alleviate its balance of payments and budgetary needs and strengthen its foreign exchange reserve position. This assistance from the European Union is complementary to the resources provided to the Country by International Financial Institutions and bilateral donors in support of the authorities’ economic stabilisation and reform programme.

2. The disbursement of the assistance shall be subject to the signature of the corresponding legal commitment (Grant Agreement) by the parties: the European Commission, representing the European Union, and the Government of the Republic of Moldova and the National Bank of Moldova, representing the Republic of Moldova.
3. The assistance shall be subject to the decision of the budgetary authority of the European Union to make available the necessary appropriations.
4. The assistance will be disbursed in three Grant instalments. The precise amounts and timing for the release of each instalment will be agreed by the two parties in the framework of the Grant Agreement.

The disbursement of the first instalment shall not take place earlier than the first day after the entry into force of the MoU. The disbursement of the second and third instalment shall not take place earlier than three months after the release of the previous instalment.

5. The disbursement of the assistance will be conditional upon a satisfactory track record in the implementation of the current Extended Credit Facility and Extended Fund Facility or subsequent arrangements agreed between the Country and the International Monetary Fund (hereafter referred to as “the IMF”), as well as upon a positive assessment by the European Commission (hereafter referred to as “the Commission”) on behalf of the European Union, of progress made with respect to economic stabilisation and structural reforms.

The macroeconomic and structural adjustment policy conditions attached to this assistance are based on the economic stabilisation and reform programme endorsed by the Country’s authorities and are consistent with agreements reached by the Country with the IMF. Accordingly, before the release of each instalment of this assistance, the

¹ O.J. L277 of 20.10.2010, p.1.

Commission, in co-operation with the national authorities and IMF staff, will verify that the conditions attached to this assistance have been adequately respected or new understandings reached.

Prior to the release of the second and third instalment by the Commission, the Country's authorities shall provide the Commission with Compliance Statements on the fulfilment of the conditionality attached to the instalment in question. Upon receipt of compliance statements by the authorities of the Country, the Commission will evaluate, in co-operation with the authorities of the Country and IMF staff, progress made with respect to the fulfilment of the conditionality. In this evaluation, particular attention will be paid to reforms in public finance management, financial sector stability and regulatory convergence with the EU. The concrete policy measures and frame of reference for this evaluation are made explicit in Annex I. In case of negative evaluation, the Commission may withhold the disbursement of the second and third Grant instalment until the Country proves the compliance with the conditionality. Annex I may be adjusted as appropriate at a later stage.

6. The Commission shall transfer the instalments to a EUR account of the Ministry of Finance of the Republic of Moldova (hereafter referred to as "the Recipient") held at the National Bank of Moldova (hereafter referred to as "the Agent").
7. During the implementation of the assistance, the Country's authorities shall supply the Commission with all information that is relevant for the monitoring of its economic and financial situation and for the assessment of progress in structural reforms. In particular, the authorities will supply to the Commission on a timely basis the relevant information as set out in Annex II.
8. The Commission, represented by its own agents or its duly mandated experts, shall have the right to carry out operational assessments of the administrative procedures and financial circuits of the Country and of the Agent that relate to the management of EU macro-financial assistance throughout the duration of this MoU and for five years after the disbursement of the last instalment (*ex-post* period).
9. An independent *ex-post* evaluation of the assistance may be carried out by the Commission or its duly authorised representatives. The authorities of the Country are committed to supply all necessary information to the Commission, represented by its own agents or its duly mandated experts, for the duration of this process. The evaluation report will be made available to the authorities of the Country for comments.
10. The authorities will ensure, as appropriate, close co-operation with the European Commission.
11. This assistance is implemented on the understanding that the authorities of the Country will continue to respect the Rule of Law, Democracy, and Human Rights.
12. Annexes I and II are an integral part of this MoU.
13. All notices in relation with the present MoU shall validly be given if in writing and sent to:

For the Republic of Moldova

Veaceslav Negruța, Minister of Finance
7 Cosmonauților str. MD-2005, Chișinău,
Republic of Moldova

For the National Bank of Moldova

Dorin Drăguțanu,
Governor of the National Bank of Moldova
1 Grigore Vieru Ave., MD-2005, Chișinău,
Republic of Moldova

For the European Union

European Commission
Directorate General for
Economic and Financial Affairs
BU24 01/035 B-1049 Brussels

14. The present MoU shall enter into force following the signature by the Republic of Moldova and the European Union.
15. The MoU may be amended upon mutual agreement of the parties in form of a written Addendum. The Addendum will be an integral part of this MoU and will enter into force according to the same procedures as the MoU.

Done in Brussels on 16 December 2010 in four originals in the English language.

REPUBLIC OF MOLDOVA

Represented by



Vladimir Filat
Prime Minister

EUROPEAN UNION

Represented by
the EUROPEAN COMMISSION



Olli Rehn
Member of the European Commission

NATIONAL BANK OF MOLDOVA

Represented by



Dorin Drăguțanu
Governor of the National Bank of
Moldova

STRUCTURAL REFORM CRITERIA

At the time of the Commission staff review that will precede the decision on the disbursement of the second Grant instalment, the authorities of the Republic of Moldova are committed to have accomplished the following actions:

PUBLIC FINANCES AND PUBLIC FINANCE MANAGEMENT REFORMS

Budget preparation and execution

Condition 1:

In the context of the implementation of the planned transition to a new Financial Management Information System (FMIS) by 1 January 2012,

- the Ministry of Finance will approve a new budget classification system compliant with GFS 2001/COFOG.
- the Ministry of Finance will develop an appropriate methodology for budget preparation.

Public finances

Condition 2:

The government will prepare the terms of reference and the methodological guidelines for a census of the number of public sector employees (in central and local government, and extra-budgetary funds and institutions), of the number of payroll positions in each subsector, and of the paid wage bill. The census aimed at improving control of expenditure on public sector compensations will include the breakdown by categories of functional budget classification and occupation.

FINANCIAL STABILITY AND FINANCIAL SECTOR REFORMS

Condition 3:

The participants in the National Financial Stability Committee, with the support of institutions they represent, will agree and publish a Memorandum of Agreement governing its decision making processes, the delimitation of supervisory responsibilities and the preparation of contingency plans for systemic risks in the financial sector.

LEGISLATIVE AND REGULATORY CONVERGENCE WITH THE EU

Public Procurement legislation and regulation

Condition 4:

The Public Procurement Agency will prepare and submit to the government a time-bound action plan with specified targets to redefine the tasks and responsibilities of the Public Procurement Agency, and to bring the public procurement legislation, regulation and practices closer to good EU standards.

At the time of the Commission staff review that will precede the decision on the disbursement of the third Grant instalment, the authorities of the Republic of Moldova are committed to have accomplished the following actions:

PUBLIC FINANCES AND PUBLIC FINANCE MANAGEMENT REFORMS

Budget preparation and execution

Condition 1:

In the context of the implementation of the planned transition to a new Financial Management Information System (FMIS) by 1 January 2012,

- the Ministry of Finance will approve a new unified Chart of Accounts for the whole public sector, replacing the current system.
- the Ministry of Finance will prepare methodology for budget execution, covering also the full implementation of the commitment management system in the new FMIS.
- the government will prepare and submit to Parliament a new Law on Public Finances, replacing the current legislation on the budget system and budget process, with a view to its adoption in the course of 2011.

Condition 2:

The government will approve and publish the Medium-Term Budget Framework Forecast (MTBF) for the period 2012-2014.

Public debt management

Condition 3:

The Ministry of Finance will elaborate, approve, and publish a medium-term debt management strategy for the period 2012-2014 as the MTBF, covering also the principles of the settlement of the outstanding government bonds held by the National Bank of Moldova.

Public finances

Condition 4:

Based on the preparatory work conducted to this effect and included in the list of actions to be accomplished prior to the release of the second Grant instalment, the government will conduct a census of the number of public sector employees, of the number of payroll positions and of the paid wage bill.

FINANCIAL SECTOR REFORMS

Condition 5:

The government will prepare and submit to the Parliament changes in the legislation on financial regulation and supervision specifying the regulatory and supervisory responsibilities for leasing and micro-credit institutions in the context of the Memorandum of Agreement between the institutions represented in the National Financial Stability Committee.

Condition 6

The Ministry of Finance and the National Bank of Moldova will jointly elaborate a time-bound action plan to ensure over the medium term sufficient capitalisation of the National Bank of Moldova.

LEGISLATIVE AND REGULATORY CONVERGENCE WITH THE EU

Public Procurement legislation and regulation

Condition 7:

The government will prepare and submit to Parliament changes in the Public Procurement Law removing domestic preference for procurement amounts under 2.5 million lei and suppressing the list of products to which domestic preference applies with the aim of making the procurement legislation and regulations compliant with EU Directive 2004/18/EC.

Central bank legislation

Condition 8:

The government in cooperation with the National Bank of Moldova will prepare and submit to Parliament adaptations to the Central Bank Law so as to provide for its compliance with the Treaty on the Functioning of the European Union, in particular in the field of central banks independence and prohibition on monetary financing.

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MONITORING SYSTEM

During the implementation of the European Union macro-financial assistance, the following indicators and reports shall be provided to the Commission by the relevant authorities, on a quarterly or monthly basis.

1. Monitoring of macro-economic and financial developments and policies

a) Information submitted by the Ministry of Finance:

- GDP or national income (quarterly)
- Main components of GDP (quarterly)
- Price indicators for GDP and consumer and producer prices (monthly)
- Employment and unemployment rates (quarterly)
- Level and composition of general and central government revenue and expenditure as well as government payment arrears (quarterly)
- Foreign trade (monthly)
- External public debt, including external arrears (monthly)
- External public debt service payments (monthly)
- Domestic public debt and debt service (monthly)

b) Information submitted by the National Bank of Moldova

- Interest rates on benchmark government bonds at liquid maturities (monthly)
- Interbank interest rates at benchmark maturities (monthly)
- Banks' lending rates to households and non-banking sector at benchmark maturities (monthly)
- Balance-of-payments and main components (quarterly)
- International reserve position (monthly)
- Nominal exchange rates MDL/USD and MDL/EUR end of period and average (monthly)
- Capital ratio aggregates of the domestic banking sector regulated by the NBM (quarterly)
- Coverage ratio of the deposit guarantee fund (quarterly)

2. Monitoring of structural policies:

- Progress reports on reforms in the areas specified in Annex I (quarterly)