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Statement by the Hon. **MARIANA DURLEAȘTEANU**,
Governor of the Bank for the **REPUBLIC OF MOLDOVA**,
at the Joint Annual Discussion

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Mr. Chairman, distinguished Governors, Mr. Dominique Strauss-Kahn, Managing Director of the International Monetary Fund, Mr. Robert Zoellick, President of the World Bank Group, delegation members, ladies and gentlemen:

It is an honor for me to participate at this important event and a privilege to be here during the most challenging and worrisome times for the global economy.

Allow me to start with a few words about the recent economic developments in my country.

The Moldovan economy

Despite a series of exogenous shocks and the severe natural calamities experienced during the last three years, the Moldovan economy has been growing at an average annual rate of 5 percent since 2005. Despite current challenges, the overall performance is expected to improve in 2008:

- The GDP will increase by 7.5 percent.
- The budget deficit is targeted at 0.5 percent of GDP.
- Poverty will continue declining to 26 percent from 30 percent in 2006.

Also, FDI increased further in recent years: in 2008 alone, the FDI inflows increased by 2.4 times compared to 2007 and reached 15% of GDP, due to improved investment environment. Remittances inflows continue to be strong, they exceeded 30 percent of GDP in the last 3 years. This proves the fact that the Moldovan economy is getting more and more integrated into the global economy, with the resulting positive and also negative consequences.

The huge inflow of foreign exchange exerts significant pressure on the Moldovan currency leading to its appreciation. During the last two years, the Moldovan Leu appreciated by over 25 percent against the US dollar. In turn, this affected the

competitiveness of our exports and, as a consequence, we have a continuously growing trade deficit.

Together with the National Bank, the Government of Moldova has been conducting a tough fight against inflation. The increase in international energy and food prices, combined with the significant inflow of foreign exchange makes this fight extremely difficult. Nevertheless, we have managed to reduce the annual inflation rate from 16.9 percent in May to 10.7 percent in September and hope to bring this indicator to below 10 percent by the end of the year.

The fiscal performance has been strong. The National Public Budget revenues increased from 38.6 percent of GDP in 2005 to 41.8 percent in 2007. Strong revenue performance allowed the Government to implement a three-fold “liberalization” initiative which includes: capital legalization, tax amnesty and introduction of zero corporate tax rate on the reinvested income. The reform aims at reducing the tax burden and creating a better business environment.

In the meantime, we are continuing public expenditure reforms with the objective to improve resource allocation for investments and increase the efficiency and accountability of public spending. Prudent debt management policy has allowed us to reduce the public external debt to GDP ratio from 22 percent in 2005 to 12 percent in 2008.

In the last eight years, the Moldovan economy registered important achievements in all areas, but serious challenges continue to threaten the sustainability of these achievements. To deal with these challenges, in 2008, the Moldovan Government began the implementation of the National Development Strategy for 2008–2011, which aims at:

- (i) Enhancing the competitiveness of the national economy,
- (ii) Development of human resource, enhancing employment and promoting social inclusion and
- (iii) Regional development.

Both, IMF and World Bank support the new Strategy.

Relations with the Fund

Moldova's cooperation with the IMF has been on an ascending trend in the last few years. Since 2006, we have benefited from about 77 million SDR, which were used to build up Moldova's international reserves, which are now covering more than 4 months of import. In addition, we have benefited from important technical assistance, including on strengthening tax administration, strengthening banking supervision, and improving national statistics.

Talking about our future cooperation, I would like to raise a few issues. And, as a Minister of Finance, I will start with fiscal issues. All these years, the Government of Moldova has been maintaining the budget deficit below 0.5 percent of GDP, and we are committed to stick to a sound fiscal policy in the future.

However, given the current global challenges that will affect us as well, we consider that a more balanced approach toward the fiscal policy is needed. The current challenges call for the fiscal policy to draw a fine line between balancing the need to help contain inflation, while at the same time, ensure economic growth and continued decline in poverty. The risks to the latter two tasks are currently on the downside. Moreover, we do have the resources (from privatization revenues) and we do not intend to spend on consumption needs. A slight increase in deficit would allow us to finance investment projects that are geopolitically important and socially targeted.

I would also like to call for more flexibility with Fund conditionality which envisages privatizations of high values assets. We all know that these kind of transactions have to take place at right time, and the right time for the market might not always be the one envisaged in the program.

I would also like to request the support of the IMF in helping us to manage the growing inflows of foreign exchange. I think we all agree that there are only a very few small open economies in the world that, like Moldova, have strong inflows of remittances and of FDI and there is not much we can learn from the international experience on this. We

would appreciate the support of the IMF staff in identifying additional financial instruments to withdraw the excessive foreign exchange from the market.

Another issue that we would need assistance with is the creation of a Risk Mitigation Fund to provide support to poor people in the situation of food crisis, increase in energy prices, climate change, financial crisis, etc. We would like to ask for advice on the best practices regarding establishing and managing such a fund.

Relations with the Bank

Regarding our cooperation with the World Bank, we have recently completed the implementation of the previous country assistance strategy and are currently defining the new partnership program. We appreciate the Bank's decision to keep the next program flexible and to increase the share of the budget support.

I would like to say a few more words about policy conditioned budget support. Starting with 1999, we are implementing nationally owned reform programs (PRSPs) which should also serve as a basis for IFIs support. Indeed, the policy conditionalities negotiated with the World Bank do fit the general objectives formulated in our national documents. However, these days, more and more donors are coming up with policy conditions. Although we understand that conditionalities are needed to push for the implementation of unpopular reforms, having too many of them might be counterproductive.. Maybe you could unify your efforts with other donors (like EU) and have one single document that will define the policy conditions? This will make our life much easier in terms of managing the process and implementing the commitments. Also, very often, little money is accompanied by lots of conditions.

The second issue that I would like to raise is the need to improve the planning of resources. First, we believe that, in many cases, the Bank disbursement procedures continue to take too much time. In addition, the disbursement of budget support is conditioned by the fulfillment of policy commitments which are not entirely in the Government's hands (like approval by Parliament), which can cause significant delays in

disbursing the money. Both these factors are making our expenditure planning exercise very difficult.

Conclusion

Finally, I would like to stress that the IMF and WB relations with small countries like Moldova should be more flexible, and allow for ongoing adaptation of the range of instruments, tailored to the country's needs and capable of providing effective assistance with finding the right response to global challenges.

Thank you for your attention.