



REPUBLIC OF MOLDOVA

TECHNICAL ASSISTANCE REPORT—PUBLIC SECTOR DEBT STATISTICS

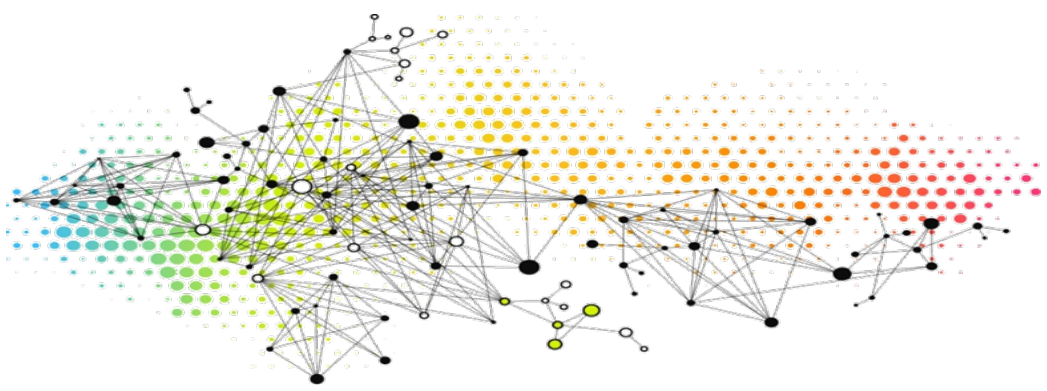
September 2018

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REPUBLIC OF MOLDOVA

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REPORT ON PUBLIC SECTOR DEBT STATISTICS TECHNICAL ASSISTANCE MISSION (APRIL 2–6, 2018)

PREPARED BY MIKE SEIFERLING

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Glossary

DMFAS	Debt Management and Financial Analysis System
EBU	Extrabudgetary Units
FRS	Fiscal Risk Statement
GFSY	Government Finance Statistics Yearbook
HoD	Head of Department
IMF	International Monetary Fund
MoF	Government of the Republic of Moldova Ministry of Finance
NBM	National Bank of Moldova
PSDSG	Public Sector Debt Statistics Guide
PSDSDB	Public Sector Debt Statistics Database
PFM	Public Finance Management
SOE	State-Owned Enterprise
SSF	Social Security Funds
UNCTAD	United Nations Conference for Trade and Development

SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1. In response to a request from the European Department, a Public-Sector Debt Statistics (PSDS) technical assistance (TA) mission was conducted in Chisinau during April 2–6, 2018. With the objective of improving Moldovan public sector debt statistics, the mission conducted an evaluation of data comprehensiveness in terms of: (i) institutional coverage; (ii) instrument coverage, including maturity structures; (iii) valuation of debt liabilities; and; (iv) additional fiscal risks resulting from contingent liabilities (on-lending and guarantees). Like the recent article IV mission¹ and Public Finance Management (PFM) assessment,² the mission found that Moldova continues to improve their recording, compilation and dissemination of public sector debt statistics reflecting potential fiscal risks, but faces five main statistical challenges going forward.

2. Along with the continued monitoring of significant contingent liabilities arising through guarantees offered to public and private sector entities, these five statistical challenges are:

- (i) The collection, compilation and dissemination of gross debt statistics for extrabudgetary units (EBU) in Moldova (public sector universities, hospitals, etc.).
- (ii) The collection, compilation and dissemination of gross debt statistics for social security funds in Moldova.
- (iii) Expansion of coverage for public corporations' gross debt statistics to include short term liabilities (currently only long term gross debt statistics are being reported for both financial and nonfinancial public corporations).
- (iv) Expansion of coverage for local governments gross debt statistics to include short term liabilities (currently only long term gross debt statistics are being reported).
- (v) The recording of gross debt at nominal value for all instruments. Currently Moldova is reporting gross debt as outstanding principal which does not include accrued interest.

3. The adoption of these five recommendations, along with comprehensive monitoring of on-lending and contingent liabilities, would increase the Moldovan policymaker's ability to forecast future fiscal risk and actively monitor the gross debt of all public-sector institutions in line with the new Fiscal Risk Statement (FRS)³. This would translate into a sound Public Finance Management structure and allow for more accurate macroeconomic surveillance and analysis.

¹ IMF Country Report No. 17/398.

² <http://blog-pfm.imf.org/pfmblog/2018/03/strengthens-fiscal-risk-moldova-management.html>

³ *Ibid.*

4. To support progress in the above work areas, the mission recommended a detailed one and a half-year action plan with the following priority recommendations carrying weight to make headway in improving PSDS.⁴

Table 1. Priority Recommendations

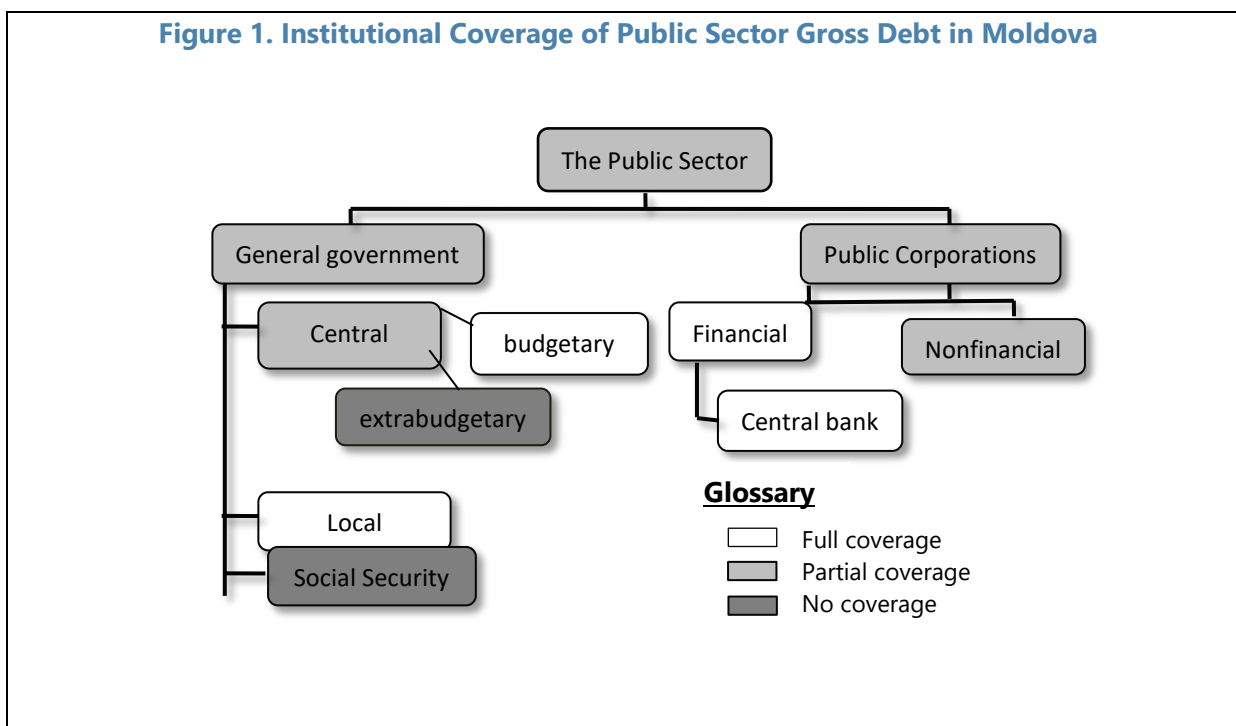
Target Date	Priority Recommendation	Responsible Institutions
December/2019	<i>Inclusion of Extrabudgetary Units and Social Security Fund statistics in General Government gross debt statistics</i>	MoF
December/2019	<i>Seek Parliament's approval of modification to existing legislation to include short term debt liabilities for Local Government gross debt and public corporations in Gross Debt statistics</i>	MoF
December/2019	<i>Liaise with UNCTAD for the configuration of the debt recording system to have the possibility to record Gross Debt for General Government and Public Corporations not only as outstanding principal, but also at nominal value</i>	MoF

MOLDOVAN PUBLIC SECTOR DEBT STATISTICS

A. Institutional Coverage of General Government and Public-Sector Gross Debt

5. At present the Moldovan Ministry of Finance covers the majority of public sector institutional units in their compilation and dissemination of PSDS. Figure 1 below provide a visual breakdown of the extent of coverage as of April 11, 2018. Examining these individually, we can consider public sector debt coverage in the Moldovan public sector by their broadest two sub-sectors: *General Government* and *Public Corporations*.

⁴ Note: these improvements will require collaboration with Moldovan lawmakers to achieve the second recommendation, and collaboration with UNCTAD to achieve the third recommendation.

Figure 1. Institutional Coverage of Public Sector Gross Debt in Moldova

General Government

6. Institutional coverage of general government gross debt (left hand side of Figure 1) is currently limited to budgetary gross debt plus long-term debt liabilities of local governments.⁵ The two missing components from the left-hand side of Figure 1 are: extrabudgetary units (EBU) and social security funds (SSF).

7. With respect to EBU, the authorities noted that financial statements and balance sheets information are often sent to functionally relevant ministries (for example, public university financial information may be sent to the Ministry of Education, or financial information for hospitals may be sent to the Ministry of Healthcare). In this case, there is currently no central reporting/recording of aggregate gross debt for all EBU within the Ministry of Finance (MoF) or the National Bank of Moldova (NBM). The authorities agreed that it would be prudent to have a centralized data collection/reporting mechanism for EBU debt liabilities and were committed to liaising with colleagues in relevant Ministries to ensure their inclusion which can be achieved in the short-term.

8. With respect to SSF, financial statements and balance sheets for the Moldovan Compulsory Medical Insurance Fund and State Social Insurance scheme are currently being collected within the MoF. This information is being reported in the IMF *Government Finance*

⁵ Maturity structure will be examined further in B.

Statistics Yearbook (GFSY), but not included in the disseminated PSDS. The authorities agreed that it would be prudent and consistent to include all debt liabilities of SSF in disseminated PSDS, and committed to working with relevant colleagues in the MoF to ensure their inclusion. To give an idea of the size and exposure of these funds, the [Medical Insurance Fund](#) had total assets and liabilities equal to 293 million lei at the end of 2017, while the [State Social Insurance scheme](#) had total assets and liabilities equal to about 2.0 billion lei at the end of 2017.

9. The authorities confirmed that coverage of local government debt liabilities is complete in terms of institutional units,⁶ but were limited to outstanding principal on long-term loans.⁷

Public Corporations

10. Coverage of public corporation gross debt (right hand side of Figure 1) is relatively comprehensive in terms of institutional coverage for, both, financial corporations (NBM is the only public sector financial corporation), and, nonfinancial corporations in Moldova. There are, however, some issues with these entities in terms of instrument coverage and valuation of debt liabilities (see B and C below).

Recommended Actions:

11. The mission recommends that the authorities expand the collection, compilation and publication of gross debt statistics to include debt liabilities of extrabudgetary units and social security funds in Moldova which would be consistent with *Public-Sector Debt Statistics: Guide for Compilers and Users (PSDSG) 2013*. The authorities agreed that it was important to create a centralized recording of extrabudgetary unit, and social security fund, gross debt. The authorities also felt that it was feasible to complete this task in the short term.

B. Instrument Coverage of General Government and Public-Sector Gross Debt

12. Moldova is currently reporting PSDS on a modified cash basis.⁸ This limits instrument coverage to four instruments in the *PSDSG 2013* framework: (i) debt securities; (ii) loans; (iii) SDR

⁶ This includes 32 rayons, two municipalities and one autonomous territorial unit. Long term loans (from the date of contract) currently make up all local government loans.

⁷ See footnote 2.

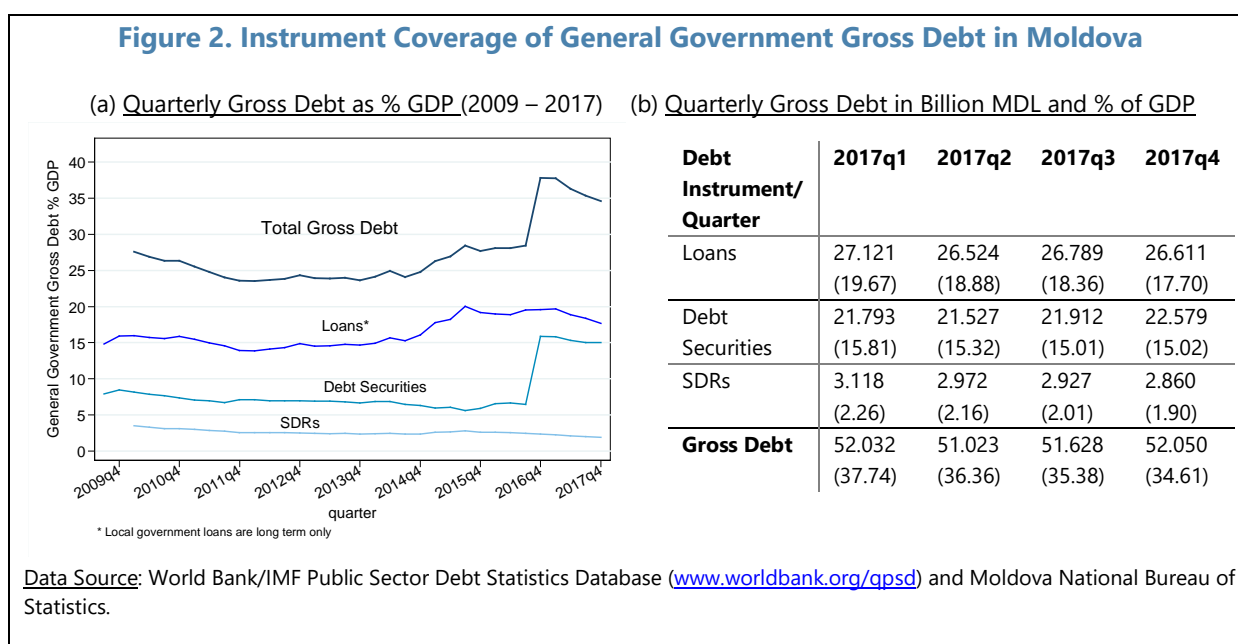
⁸ Note that the recent Article IV (IMF Country Report No. 17/398) worked with fiscal data on a cash basis, but Moldova has good data on arrears, and trade credits within the NBM, which are movements away from cash towards accrual.

liabilities, and (iv) currency and deposits.⁹ Of these, (i), (ii), and (iii) will be of importance to the general government, while (i), (ii), and (iv) will be of importance to public corporations.

General Government

13. Moldova has been actively reporting gross debt statistics for general government to both GFSY and the IMF/World Bank Quarterly Public-Sector Debt Statistics (QPSDS) Database for the past nine years.¹⁰

As noted above, there are two missing sub-sectors which would be required to achieve full coverage of the general government, however, for sub-sectors which are included, instrument coverage is relatively comprehensive for a (modified) cash system. Specifically, the Moldovan government (central and local) holds much of their gross debt in external loans and domestically held debt securities. The central government also holds a smaller amount of liabilities in the form of SDRs. Figure 2 below shows the quarterly gross debt path of general government as a percent of GDP over the 2009–2017 period (left hand side), and a quarterly breakdown for the 2017 fiscal year in billions of Moldovan Lei (right hand side).



Public Corporations

14. Moldova has been actively reporting gross debt statistics for public corporations to the QPSDS database for the past nine years (since Q3 2009). Breaking these down into

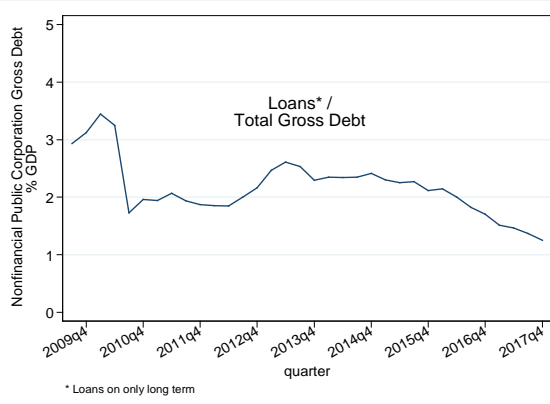
⁹ Other accounts payable, and insurance, pension, and standardized guarantee schemes are not considered in this section.

¹⁰ In the case of GFSY, Moldova has been reporting sufficient balance sheet information to compute net debt which is useful for Balance Sheet Approach analytical applications.

sub-categories of *Financial* and *Nonfinancial public corporations*, the former is limited to NBM (there are currently no state-owned banks in Moldova), and the latter is well recorded in the MoF in terms of institutional units. As noted above, the three important instruments in a modified cash-based system for public corporations are debt securities, loans and, currency and deposits.¹¹ Figures 3 and 4 below show the reported gross debt liabilities by instrument for public nonfinancial and financial corporations, respectively. As can be seen in these Figures, while gross debt of these public corporations is relatively small, instrument coverage is limited to long-term debt liabilities.

Figure 3. Nonfinancial Public Corporations Gross Debt Instrument Coverage in Moldova

(a) Quarterly Gross Debt in % GDP (2009 – 2017)



(b) Quarterly Gross Debt in Billion MDL and % of GDP

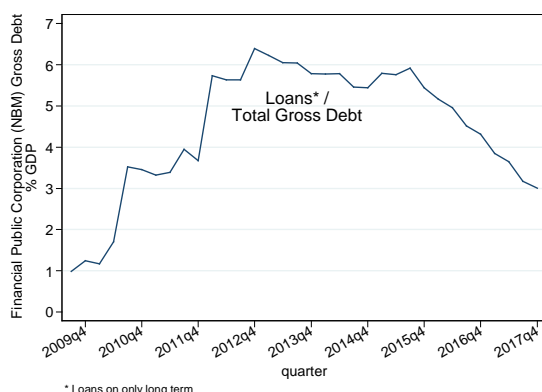
Debt Instrument/ Quarter	2017q1	2017q2	2017q3	2017q4
Loans	2.091 (1.52)	2.059 (1.47)	2.006 (1.37)	1.883 (1.25)
Debt Securities	0 (0)	0 (0)	0 (0)	0 (0)
Currency and Deposits	0 (0)	0 (0)	0 (0)	0 (0)
Gross Debt	2.091 (1.52)	2.057 (1.47)	2.004 (1.37)	1.883 (1.25)

Data Source: World Bank/IMF Public Sector Debt Statistics Database (www.worldbank.org/qpsd) and Moldova National Bureau of Statistics

¹¹ Currency and deposits would apply to public financial corporations (NBM).

Figure 4. Financial Public Corporations Gross Debt Instrument Coverage in Moldova

(a) Quarterly Gross Debt in % GDP (2009 – 2017)



* Loans on only long term

(b) Quarterly Gross Debt in Billion MDL and % of GDP

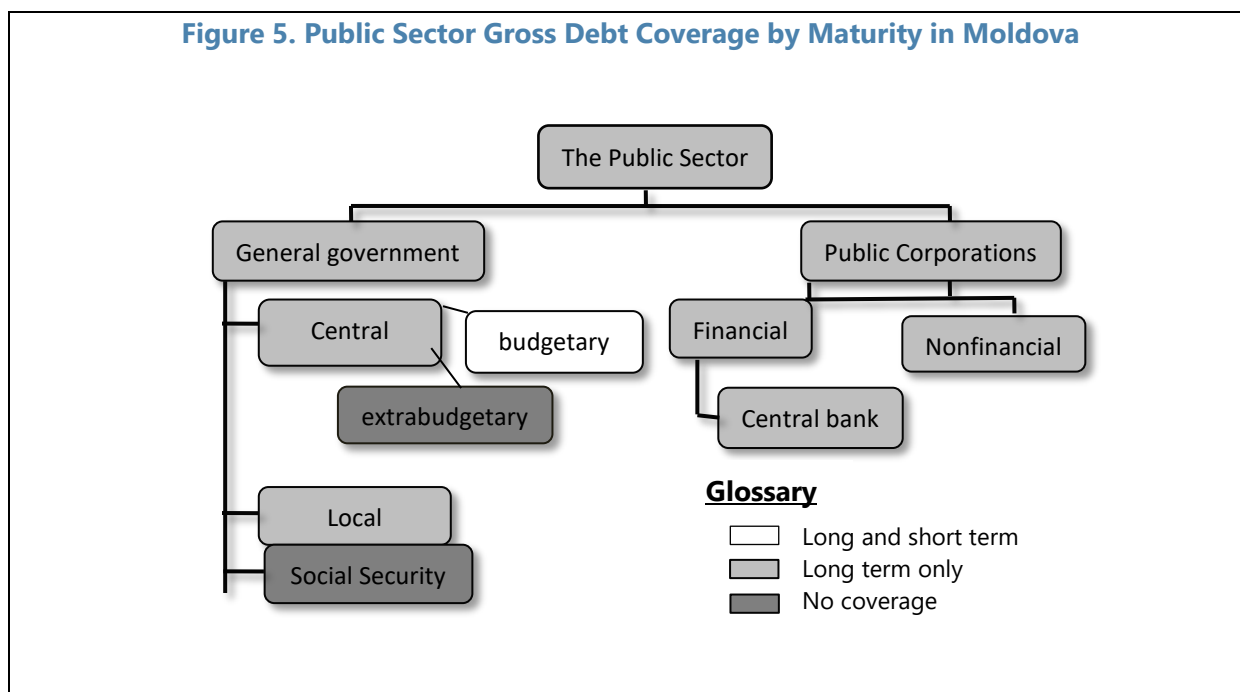
Debt Instrument/ Quarter	2017q1	2017q2	2017q3	2017q4
Loans	5.299 (3.84)	5.123 (3.65)	4.629 (3.17)	4.519 (3.01)
Debt	0	0	0	0
Securities	(0)	(0)	(0)	(0)
Currency and Deposits	0 (0)	0 (0)	0 (0)	0 (0)
Gross Debt	5.299 (3.84)	5.123 (3.65)	4.629 (3.17)	4.519 (3.01)

Data Source: World Bank/IMF Public Sector Debt Statistics Database (www.worldbank.org/qpsd) and Moldova National Bureau of Statistics

15. Note from Figures 2 and 3 that debt liabilities are limited to those with long term. This leads to a reporting of zero for currency and deposits (a short-term liability) of NBM which does not reflect total financial corporation debt according to PSDSG 2013 guidelines.

16. A second theme that arises throughout section B is the reporting of public sector gross debt by maturity structure. As can be seen in Figure 5 below, reporting of debt instruments is largely limited to long term liabilities which does not allow for comprehensive evaluation of liquidity and/or rollover risks involved with debt portfolios.

Figure 5. Public Sector Gross Debt Coverage by Maturity in Moldova

**Recommended Actions:**

17. The mission recommended including both short and long-term debt liabilities for all public-sector entities, including currency and deposits for NBM. The authorities agreed that PSDS guidelines recommend the inclusion of both short and long-term debt liabilities but, noted that the reporting of short term instruments was not permitted under existing legislation. This would need to be changed before being able to disseminate short term gross debt statistics of local governments and public corporations.

C. Valuation of Debt Instruments

18. The PSDSG 2013 recommends the recording of gross debt at both market and nominal value. The MoF and NBM are both currently using United Nations Conference on Trade and Development (UNCTAD)'s Debt Management and Financial Analysis System (DMFAS) for recording PSDS. Under this system, in a modified cash framework, Moldova is reporting gross debt as outstanding principal (or 'direct debt'), which does not include accrued interest.¹² Effectively, this underestimated the size of gross debt where interest has accrued but not yet been paid.

¹² This was recognized in the recent (12/17) Article IV mission to Moldova (IMF Country Report No. 17/398).

19. The authorities were trained in the technical/analytical computation of gross debt at nominal and market value (see subsection 1) but, noted that DMFAS does not allow for the reporting of debt at nominal value for large volumes of debt contracts. The mission was in contact with UNCTAD colleagues who noted that the computation of gross debt at nominal value was being built into the new DMFAS system and were working on a short-term solution with the IMF.

Recommended Actions:

20. The mission recommended that the authorities move to the recording of gross debt for all public-sector units and all relevant debt instruments at nominal value. Given that debt securities do not currently trade in secondary markets, this would also provide gross debt statistics to be compiled at market value. The authorities are aware that it is important to include accrued interest for debt liabilities in PSDS but, noted that this would be dependent on UNCTAD availability to configure the technical requirements in their debt management system for the recording of accrued interest.

D. On-Lending and Contingent Liabilities (Guarantees)

21. The Moldovan central government has made progress in reducing their off-balance sheet exposure in terms of state guarantees, and balance sheet exposure to financial assets (loans) held through on-lending agreements with public or private sector entities which were recognized in the December 2017 Article IV Consultation.

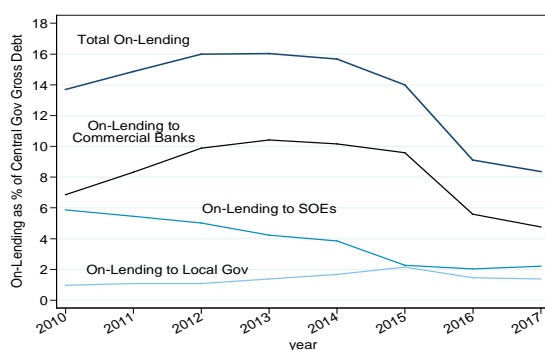
22. There does remain significant central government exposure to other public, and private, sector debt which were recognized in the 11/2017 Fiscal Risk Statement.¹³

Specifically, 'exposure to public debt' from 'unexpected market developments' was rated as 'high probability' with 'medium impact'. The bailing out of insolvent public corporations and commercial banks also rated as 'high' on the potential impact scale. Figures 6 and 7 below show the degree of exposure from on-lending to local government, public corporations and commercial banks, and past calls on guarantees. Given the magnitudes from both Figures, it is important that the authorities continue to monitor these carefully.

¹³ See: <http://mf.gov.md/ro/content/proiectul-legii-bugetului-de-stat-pe-anul-2018> <http://>, and blog-pfm.imf.org/pfmblog/2018/03/strengthens-fiscal-risk-moldova-management.html

Figure 6. Central Government On-Lending in Moldova

(a) On Lending as % of Total Debt (2010 – 2017) (b) On-Lending in Billion MDL and % of Total Debt (2014-17)

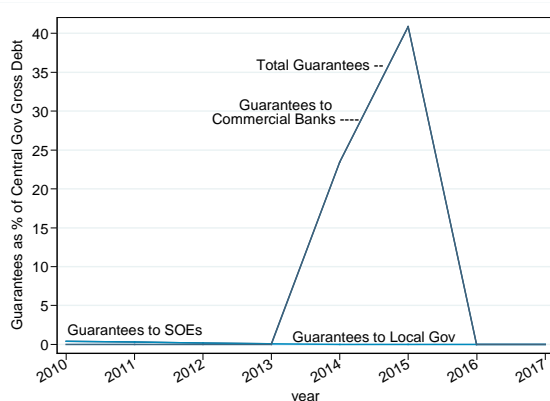


Data Source: MoF

Debt Instrument/Year	2014	2015	2016	2017
Local	0.46	0.72	0.74	0.72
Government	(1.67)	(2.15)	(1.47)	(1.39)
SOEs	1.057 (3.85)	0.762 (2.27)	1.035 (2.04)	1.160 (2.24)
Commercial Banks	2.791 (10.16)	3.208 (9.58)	2.884 (5.60)	2.464 (4.77)
Total On-Lending	4.309 (15.68)	4.691 (14.00)	4.624 (9.11)	4.321 (8.36)

Figure 7. Central Government Guarantees in Moldova

(a) CG* Guarantees % of Total Debt (2010–2017) (b) CG* Guarantees in Billion MDL and % of Total Debt (2014–17)



Data Source: MoF

* - unconsolidated central government

Recipient/Year	2014	2015	2016	2017
Local	0	0	0	0
Government	(0)	(0)	(0)	(0)
SOEs	0 (0)	0 (0)	0 (0)	0 (0)
Commercial Banks	6.450 (23.48)	1.3689 (40.85)	0 (0)	0 (0)
Total Guarantees called	6.450 (23.48)	1.3689 (40.85)	0 (0)	0 (0)

Recommended Actions:

23. The authorities should continue to carefully, compile, monitor and disseminate information relating to central government exposure to on-lending agreements with local governments, public corporations and commercial banks in Moldova. With respect to contingent liabilities in the form of guarantees, the government should continue to record and monitor these while assessing their short, and medium-term likelihood of being called.

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

24. Bringing together the recommendations from sections A-D, the mission recommends the following achievable actions:

- (i) Expanding the collection, compilation and dissemination of gross debt statistics to include debt liabilities of extrabudgetary units and social security funds to be consistent with *PSDSG 2013*.

The authorities agreed that it would be prudent to have a centralized data collection and reporting mechanism for extrabudgetary unit, and social security fund, gross debt. The authorities also felt that it was feasible to complete this task in the short term, by working with relevant departments in the MoF and changing the legislation accordingly.

- (ii) Extending the reporting of debt liabilities to include those with both short and long-term maturity structures for all public-sector entities.

The authorities agreed that PSDS guidelines recommend the inclusion of both short and long-term debt liabilities, but noted that the reporting of short term instruments was not permitted under existing legislation. This would need to be changed before being able to publish short term gross debt of local governments and public corporations.

- (iii) The recording of gross debt for all public-sector units and all relevant debt instruments at nominal value. Given that debt securities do not currently trade in secondary markets, this would also provide gross debt statistics to be compiled at market value.

The authorities are aware of the importance to include accrued interest on debt liabilities in public sector debt statistics, but noted that this would require changes to prevailing legislation and accounting practices; and the availability of technical requirements in their debt management system.

25. While the implementation of this recommendations would provide a more accurate, and comprehensive, measure of gross debt in the Moldovan public sector, it would also lead to an increase in the size of gross debt. The implementation of (ii) above would require changing the current legal framework for debt management. The implementation of (iii) would require an upgrade of the DMFAS system and/or additional staff in the Moldovan debt management office. Target actions and achievement dates are broken down below.

Priority	Action/Milestone	Risk Assumptions/ Verifiable Indicators	Target Completion Date	Actual Completion Date	Implementation Status
Outcome:					
H	Expand the collection, compilation and dissemination of gross debt statistics to include debt liabilities of extrabudgetary units	Medium risk – depends upon changes to existing laws governing dissemination of debt statistics. Should be verifiable via publication of extrabudgetary unit gross debt	December 2019		
H	Expand the collection, compilation and dissemination of gross debt statistics to include debt liabilities of social security funds	Medium risk – depends upon changes to existing laws governing dissemination of debt statistics. Should be verifiable via publication of social security fund gross debt	December 2019		
Outcome:					
H	Extending the reporting of debt liabilities to include those with both short and long-term for all public-sector entities to include	Medium risk – depends upon changes to existing laws governing dissemination of debt statistics	December 2019		

Priority	Action/Milestone	Risk Assumptions/ Verifiable Indicators	Target Completion Date	Actual Completion Date	Implementation Status
	both short and long-term debt liabilities	(political support). Verifiable via the publication of short term debt for all public-sector entities and instruments			
L	The recording of gross debt for all public-sector units and all relevant debt instruments at nominal value	Medium risk – depends upon the availability of technical resources from authorities' debt management system (external factors). Verifiable via the inclusion of accrued interest in debt statistics	December 2019		

A. Subsection 1: Technical Training Topics Covered

- Defining and identifying Institutional Structure of the Public Sector
- Defining and identifying Debt Instrument in the Public Sector
- Valuation of Debt Liabilities
- Identification and valuation of Contingent Liabilities

B. Officials Met During the Mission

Name	Institution	E-mail Address
Ms. Elena Matveeva	HoD: Public Debt Department (MoF)	
Ms. Angela Gherman-Cernei	HoD: Reporting and Statistics Department (NBM)	
Ms. Marina Popușoi	Head of Unit: Analysis and Risk Unit (MoF)	
Mr. Marcel Olari	Head of Division: External Debt Division (MoF)	
Mr. Alexandr Rodideal	Head of Division: On-Lending Division (MoF)	
Ms. Tatiana Șapoval	Senior Consultant: Analysis and Risk Unit (MoF)	
Ms. Olesea Frișcu	Senior Consultant: Domestic Debt Division (MoF)	
Ms. Crina Burca	Senior Consultant: External Debt Division (MoF)	
Mr. Artur Ucolov	Senior Consultant: External Debt Division (MoF)	
Mr. Alexandru Stajila	Principal Specialist: Reporting and Statistics Department (NBM)	
Ms. Veronica Chicu	Principal Specialist: Reporting and Statistics Department (NBM)	
Ms. Oxana Pui	Principal Consultant: Domestic Debt Division (MoF)	
Ms. Diana Belaia	Principal Consultant: State Treasury (MoF)	
Ms. Mariana Scortescu	Principal Consultant: State Treasury (MoF)	
Ms. Tatiana Lupanciuc	Principal Consultant: On-Lending (MoF)	