Sovereign Debt Management Forum
October 29-31, 2012
Washington DC

Overcoming obstacles to building public debt management capacity

The case of Moldova

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Key indicators

- GDP growth rate in 2011 was 6,4%, 2012 projected at 3,0%
- Budget deficit in 2011 2,4% of GDP
- Public Debt/GDP is 29,2%
- Central Government Debt/GDP in 2011 was 23,4%
- By residence of the creditor: External-69,6%;Domestic-30,4%;
- Debt Service/Budget Revenues – 8,8%
- Debt Service/Budget Expenditures -8,4%
- External Central Government Debt/Exports – 51,5%
- Debt Strategy starting 2011
- Well performed under PEFA 2011 review
- PFM reforms in implementation
- Country Policy and Institutional Assessment-3,8 (average IDA Borrowers 3,3) for Debt Policy and Management 4,0 (Y2011);

Legal & Institutional framework

Law on Public Debt and State Guarantees and on-lending from State Borrowings/22.12.2006

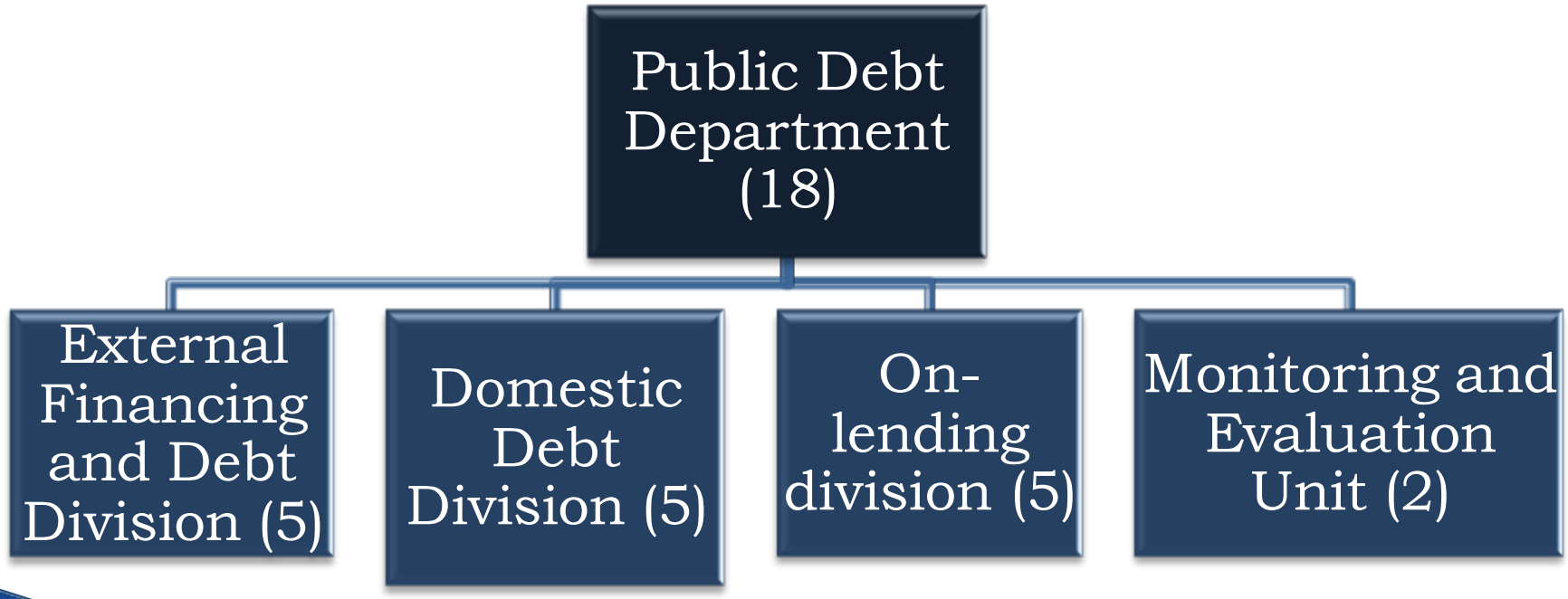
MoF is responsible for monitoring and reporting of public debt

MoF is responsible for management of central government debt, issues guarantees on behalf of the state and on-lending

The responsible institution for the management of debt within the Ministry of Finance is the Public Debt Department created in October 2001.

Legal & Institutional framework

Currently, the DMO is structured according to products and not core functions



Relation between DMO of Moldova and other bodies

DMO

Internal

- **State Treasury** (cash & debt management, processing of payment orders, disbursements of budget loans etc.);
- **Budget Department** (proposals related to the budgeting of debt ceilings, debt service, financing sources of the budget deficit etc.);
- **Subordinated institutions of the MoF** (control of correctness of public debt reporting, maintenance of DMFAS).

External

- **Prime minister's office** (identification of new financing sources,);
- **Parliament** (ratification of loan agreements);
- **Line ministries/PIU** (forecast of loan disbursements, request for disbursements, reporting of disbursements);
- **National Bank of Moldova** (acting as fiscal agent of the state, the forecast of international reserves related to debt service, reporting of public debt);
- **Public institutions (local authorities, municipal and state companies)** – reporting of public debt.

External technical assistance

- Project support to public debt management 2004-2008, financed by SIDA
- DeMPA, 2008 (WB)
- MTDS mission, 2008-2009 (WB&IMF)
- US Treasury, 2009
- MTDS and DSA training jointly with Reform plan mission, 2011
- DO staff have participated in trainings, seminars organized by IMF and WB

The way to debt management reforms, DeMPA

DeMPA findings & recommendations

- Overall score is high
  - managerial structure
  - coordination with monetary policy
  - policies and procedures for domestic borrowing
  - debt records
  - Legal framework
  - Debt reporting
- Need improvement
  - Debt management strategy
  - Operational risk management

The way to debt management reforms, MTDS mission

- Main objective
- to provide support to the government in their ongoing efforts to develop a MTDS

- Recommendations
- Existing formal DMS provides limited guidance regarding the risk exposure of the debt
- Reestablishment the division responsible for development of MTDS and cost-risk analysis
- Description of shock scenarios and alternative financing strategies

DeMPA and MTDS missions

were the basis for making the

Reform Plan.

Reform Plan

- 17 actions
- Duration 2011- 2014
- 10 actions to be implemented internally
- 7 actions – using external assistance

Reform Plan

I. Legal framework

-Amend the law to include

- Debt management objectives
- Requirement to develop debt management strategies with regular updates report to parliament and Government

- Develop regulations for local government borrowing

II. Organization of effective debt management

Restructure the DO according to functions

Hire or transfer within the DO one additional staff to ME

Transfer legal adviser or hire young law graduate

Annual training plans

Rotate staff within DO

III. Debt Management Strategy and Risk Management

Publish debt management strategy as stand alone document and update annually

Develop framework to assess financing options

Reform Plan

IV. Reporting

Introduce monthly short reports

Review content of quarterly reports and introduce strategy follow-up in the annual report

V. Operational Risk

Initiate internal project to identify and develop plans for managing operational risk

Ensure there is a back-up staff for all core functions

Introduce a separate risk monitoring and control function in the DO

VI. Debt Recording

Introducing a unified debt recording system

VII. Domestic Securities Market Development

Analyze the options for gradually extending maturities

Prepare action plan for government securities market development

Implementation of Reform Plan

In implementation - 3 actions

Implemented - 6 actions

Delays - 3 actions (need external assistance)

Lessons learned

Country ownership and commitment to reform

Link to on-going PFM reform plan

Experience of different DO

Appropriate legal support

Information system

Sufficient and well trained staff