Selection of Financing Proposals for Project Loans Republic of Moldova

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Central government external debt - 1,147 mil. USD
i.e. 69.6% from total central government debt outstanding and 16.29% from GDP
Structure:
by instruments:
- Loans – 89.0%
- SDR allocation – 11.0%
by interest rate
- Fixed – 68.5%;
- Floating – 31.5%
by creditors:
- Multilateral – 82.3%
- Bilateral – 17.1%
- Commercial – 0.6%.
Central Government External Debt Outlook (cont)

**Multilateral creditors:**

- IDA – 47.9%
- IMF – 34.2%
- IBRD – 6.6%
- IFAD – 5.2%
- EIB – 3.7%
- CEB – 1.5%
- EBRD – 1.0%
Central Government External Debt Outlook (cont)

- From total external debt outstanding – 5.2% represents the debt with financing choices which should be selected at each disbursement.
- Main creditors EIB and CEB
- Total committed amount since 2005 – 240.3 mil. EUR from which disbursed -43.4 mil. EUR
- Projects:
  - Social and health projects (CEB);
  - Road infrastructure;
  - Water supply;
  - Agriculture (Filiere-du-vin project);
  - Energy (all financed by EIB).
Process of selection of financing choices

- Selection of financing choices process:
  - STEP 1: Analysis of debt portfolio;
  - STEP 2: Analysis of compliance with risk parameters settle in the debt strategy;
  - STEP 3: Evaluation of best offer;
  - STEP 4: Documented decision;
  - STEP 5: Approval by the Minister of Finance of the selected option;
  - STEP 6: Signing of the loan offer and submission to the creditor.
Step 1: Analysis of debt portfolio

- Total debt outstanding:
- debt with fixed rate/floating rate debt;
- maturity;
- repayment profile.
Step 2: Analysis of compliance with parameters of structure of debt portfolio

- **Debt management strategy 2012-2014 parameters:**
  - The domestic debt/total debt outstanding ≥ 20%;
  - Residual maturity of total debt outstanding: debt maturing within 1 year ≤ 35%;
  - Debt with fixed interest rate/total debt outstanding ≥ 50%;
  - External debt outstanding currency composition: the share of currency/total external debt outstanding ≤ 50%.
Step 3: Evaluation of best offer

- **Components of a loan offer:**
  - Interest rate: Fixed and Floating offers;
  - Maturity: different maturities up to 12y, 15y or 20y grace period usually remaining the same;
  - Repayments: semiannual, annual, equal payments and annuity payments.

- **Main challenges:**
  - Interest rate: fixed vs. floating;
  - Tenor: long maturities vs. longer maturities (i.e. 10y vs. 15y and 15y vs. 20y).
Step 3: Evaluation of best offer (cont)

- Actual level of EURIBOR/LiBOR its evolution during the year;
- Evolution over the last 3 years of EURIBOR/LiBOR;
- Analysis of grant element;
- Generation of cash flows with stress scenarios regarding the assumptions of an EURIBOR/LiBOR level highest and medium reached in the last 3 years but also with scenarios of a current average level;
- Analysis of type of the project (social vs. economic) and analysis of financial assets (some loans are on-lent and all risks are passed to on-lent entities);
Step 4: Documented decision

- Informatory note which covers the following:
  - Loan offer proposals;
  - Analysis of cash flows, grant element, risk assumptions, evolution of interest rate;
  - Conclusion and proposals based on the assumption made and compliance with strategy parameters.
Step 5: Approval of the financial option

- Based on the analysis reflected in the informatory note the financial option is selected by the approval of the Minister of Finance (the authorized person to sign the loan offer);
- Approval-signing the informatory note.
Step 6: Signing the loan offer and submission to the creditor

- Last step - Signing of the loan offer based on the selected proposals;
- Submission in due time to creditor (for EIB - for a fixed interest rate the deadline for signing the offer is 25 minutes, for floating rates - till the end of the week, for CEB for any kind of interest rate is 20 calendar days)
“And finally, no matter how much science progresses, there will always be decisions that will inevitably depend on the personal judgment and art or the way you "feel" the financial markets!”