INTERNATIONAL MONETARY FUND

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REPUBLIC OF MOLDOVA

December, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENTS, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF MOLDOVA

In the context of the Staff Report for the 2023 Article IV Consultation, Fourth Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements, Request for Extension and Rephasing of the Arrangements, and request for an Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 6, 2023, following discussions that ended on October 16, 2023 with the officials of Republic of Moldova on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility and Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on November 21, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Republic of Moldova.
- The **Debt Sustainability Analysis.**
- The **World Bank Assessment Letter for the Resilience and Sustainability Facility.**

The documents listed below have been or will be separately released.

Selected Issues

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Washington, D.C.

IMF Executive Board Concludes 2023 Article IV Consultation and Fourth Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements and Approves Request for Arrangement Under the Resilience and Sustainability Facility

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the fourth review under the Extended Credit Facility/Extended Fund Facility (ECF/EFF) arrangements with Moldova, allowing for an immediate disbursement of about US$95 million (SDR 70.95 million). ECF/EFF implementation remains strong, with key reforms in fiscal governance, financial sector oversight, and the rule of law.*
- *The Executive Board also approved an arrangement for Moldova under the Resilience and Sustainability Facility (RSF), in an amount equivalent to US$173 million (SDR 129.375 million). The RSF will support Moldova's efforts to strengthen resilience against climate shocks, support energy sector reforms, enhance domestic financial sector preparedness, and mobilize sustainable finance.*
- *Moldova faces ongoing challenges related to spillovers from Russia's war in Ukraine. Policies are appropriately focused on crisis mitigation and recovery; as risks abate, policies should align with long-term development goals while ensuring fiscal sustainability. Ongoing institutional and policy reforms will contribute to boosting medium-term, sustainable growth.*

Washington, DC – December 6, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the fourth review under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements[1] for the Republic of Moldova.[2] This allows for the immediate disbursement of SDR 70.95 million (about US$ 95 million), usable for budget support, and brings Moldova's total disbursements under the blended ECF/EFF arrangements to SDR 348.5 million (about US$ 466 million). The Executive Board also approved an extension of the ECF/EFF arrangements by 6 months until October 19, 2025. The Board also approved a new arrangement Under the Resilience and Sustainability Facility (RSF) of SDR 129.375 million (about US$173 million). The RSF will support Moldova's efforts to strengthen resilience against climate shocks, support energy sector reforms, enhance domestic financial sector preparedness, and mobilize sustainable finance.

Moldova continues to grapple with persistent challenges from spillovers of Russia's war in Ukraine. ECF/EFF implementation remains strong despite these challenges, with completion

[1] Arrangements under the ECF provide financial assistance that is more flexible and better tailored to the diverse needs of low-income countries (LICs), including in times of crisis (e.g., protracted balance of payments problems). Those under the EFF provide assistance to countries experiencing serious payment imbalances because of structural impediments or slow growth and an inherently weak balance-of-payments position.

[2] The ECF/EFF arrangements were approved in December 2021 (Press Release) and augmented in May 2022 to increase total access under the arrangements to SDR 594.26 million (Press Release).

of important reforms related to fiscal governance, financial sector oversight, and the rule of law. Contingency plans have alleviated the effects of the energy crisis, with progress in diversifying energy sources and enhancing protection for the vulnerable population during winter months. Inflation decelerated rapidly due to timely monetary responses and declining food and fuel prices. A modest recovery is expected in 2023, supported by agriculture, increased consumption, and investment. Near-term policy priorities are appropriately focused on mitigating crisis impacts and supporting recovery. As risks abate, policies should be increasingly geared to long-term development goals while preserving fiscal sustainability. The effective implementation of the ECF/EFF and RSF reforms, together with strengthening the labor market and enhancing productivity will support long-term, sustainable development, and convergence toward EU income levels.

Following the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director, issued the following statement:

"Performance under the ECF/EFF remains strong, despite the complex environment. Spillovers from Russia's war in Ukraine continue to weigh heavily on the Moldovan economy. The impact of the energy crisis was partially alleviated with the implementation of effective contingency plans, and progress has been achieved in diversifying energy sources. Inflation decelerated more rapidly than expected, owing to a well-calibrated monetary policy response and a swift decline in food and fuel prices. The rebound is projected to be modest in the near term supported by a pickup in domestic demand."

"Despite the challenging environment, Moldova has demonstrated resilience and maintained a strong reform momentum. The authorities' reform agenda is appropriately focused on strengthening the rule of law, anti-corruption institutions and frameworks, and fiscal governance. These are well-aligned with the EU accession agenda and will contribute to strengthening growth. However, the outlook is subject to high uncertainty and the impact of the war is expected to persist, leading to an expected negative output gap in the medium term."

"Fiscal policy should remain focused on mitigating the impact of the multiple crises, supporting the recovery, and advancing longer-term reforms. Near-term policy should continue to support the most vulnerable and safeguard energy security. Over the medium term, fiscal consolidation, while addressing development needs, is important to preserve fiscal and debt sustainability."

"The monetary policy stance is appropriate and should continue to be data-driven and forward-looking. Further progress to strengthen the independence of the National Bank of Moldova will preserve policy credibility and effectiveness. Maintaining financial sector stability and improving financial inclusion are important. Measures to strengthen the labor market and maintaining strong momentum on state-owned enterprise and governance reforms are necessary to contain fiscal risks, foster trust in public institutions, and improve the business environment."

1 Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

2 At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

“The RSF program will support Moldova’s investments to enhance resilience to climate shocks, catalyze financing for adaptation and mitigation, support energy sector reforms, and enhance domestic financial sector preparedness to mobilize sustainable finance.”

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their strong program ownership and performance under the ECF/EFF arrangements and considered that the new RSF arrangement will help strengthen climate resilience efforts. Directors cautioned that despite the favorable outlook, Moldova continues to face significant headwinds from multiple crises and large downside risks, including from spillovers from Russia’s war in Ukraine and energy shocks. They encouraged continued focus on mitigating shocks, aiding the recovery, and supporting sustainable, green growth, and EU accession efforts.

Directors agreed that fiscal policy should remain focused on mitigating the impact of the multiple crises, supporting the recovery, and advancing longer-term reforms. They underscore that near-term fiscal policy should continue to support the most vulnerable and safeguard energy security. Over the medium term, fiscal consolidation, while addressing development needs, is important to preserve fiscal and debt sustainability. Directors welcomed the authorities’ plans to enhance revenue mobilization and improve expenditure quality and efficiency. They recommended steps to enhance public financial management and address recurrent budget under-execution.

Directors recognized the central bank’s strong, timely response to help mitigate high inflation and recommended that monetary policy remain data-driven and forward-looking. Directors highlighted the need to continue to reduce high reserve requirements to support bank liquidity and credit intermediation. They emphasized that further progress on strengthening the independence of the central bank will preserve policy credibility and effectiveness. Directors underscored the importance of maintaining financial sector stability, enhancing oversight, and improving financial inclusion.

Directors recognized recent reforms to strengthen governance, address high-level corruption and bolster the rule of law. Important measures include strengthening the labor market and enhancing the efficiency of state-owned enterprises. Directors emphasized that maintaining strong momentum on these reforms is crucial to contain fiscal risks, foster trust in public institutions, and improve the business environment. They noted that the RSF will support Moldova’s efforts to enhance resilience to climate shocks, implement energy sector reforms, and ensure mobilization of sustainable finance.

It is expected that the next Article IV consultation with Republic of Moldova will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

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Table 1. Moldova: Selected Economic Indicators, 2018–2028 [1/]

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(Percent change, unless otherwise indicated)						
Real Sector Indicators											
Gross domestic product											
Real growth rate	4.1	3.6	-8.3	13.9	-5.0	2.0	3.9	4.8	5.0	5.0	5.0
Demand	8.5	4.1	-7.5	16.6	-5.1	2.3	4.2	5.0	5.3	5.4	5.2
Consumption	3.2	3.7	-7.9	14.8	-1.4	2.4	3.5	4.4	4.3	4.4	4.5
Private	-1.5	-0.9	2.9	17.4	-3.3	1.8	3.0	4.0	4.0	4.2	4.3
Public	15.7	47.6	16.1	3.0	7.5	6.0	6.0	6.4	5.5	5.5	5.5
Gross fixed capital formation	14.4	12.0	5.6	1.9	-6.4	3.9	5.8	7.2	7.3	7.5	7.7
Net Exports of goods and services	-14.3	-3.8	2.8	-25.6	5.3	-3.4	-5.2	-6.0	-6.7	-6.9	-6.1
Exports of goods and services	4.1	8.2	-14.9	17.5	26.8	4.7	6.7	7.3	7.1	7.0	7.0
Imports of goods and services	8.4	6.2	-9.5	21.2	11.7	4.2	6.1	6.8	6.9	6.9	6.7
Nominal GDP (billions of Moldovan lei)	189.1	206.3	199.7	242.1	275.6	312.0	342.0	378.1	418.8	463.9	513.9
Nominal GDP (billions of U.S. dollars)	11.3	11.7	11.5	13.7	14.6	16.0	16.3	17.8	19.5	21.6	23.4
Consumer price index (average)	3.6	4.8	3.8	5.1	28.6	13.4	5.0	5.0	5.0	5.0	5.0
Consumer price index (end of period)	0.9	7.5	0.4	13.9	30.2	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	3.2	5.3	5.6	6.4	19.8	11.0	5.5	5.5	5.5	5.5	5.5
Average monthly wage (Moldovan lei)	6,443	7,356	8,104	8,619	9,328	10,775	11,750	12,925	14,225	14,225	14,225
Average monthly wage (U.S. dollars)	383	419	468	488	493	553	560	610	662	662	647
Unemployment rate (annual average, percent)	3.1	5.1	3.8	3.3	4.6	4.9	4.2	4.2	4.2	4.2	4.2
					(Percent of GDP)						
Saving-Investment Balance											
Foreign saving	10.8	9.5	7.8	12.4	17.2	12.2	11.4	10.4	9.7	9.6	9.5
National saving	15.8	15.6	14.9	13.3	7.4	10.8	12.1	13.3	14.7	15.2	15.7
Private	12.9	13.4	16.2	12.8	6.7	11.6	13.4	13.6	14.3	14.3	14.1
Public	2.9	2.2	-1.3	0.6	0.7	-0.8	-1.3	-0.3	0.4	0.9	1.6
Gross investment	26.6	25.1	22.7	25.8	24.6	23.0	23.5	23.7	24.3	24.8	25.1
Private	23.0	21.5	19.2	22.4	20.9	20.0	20.4	20.3	20.6	20.8	20.9
Public	3.6	3.6	3.5	3.3	3.7	2.9	3.1	3.4	3.7	4.0	4.2
Fiscal Indicators (General Government)											
Primary balance	-0.2	-0.8	-4.7	-2.0	-2.3	-4.4	-3.5	-2.8	-2.6	-2.3	-1.8
Overall balance	-0.9	-1.5	-5.3	-2.6	-5.1	-5.0	-4.6	-3.8	-3.4	-3.1	-2.6
Stock of public and publicly guaranteed debt	30.4	28.1	35.6	34.6	36.4	37.1	38.2	37.6	36.9	35.0	33.0
	(Percent change, unless otherwise indicated)										
Financial Indicators											
Broad money (M3)	7.8	8.2	19.6	11.3	5.2	15.2	...	...	...	...	...
Velocity (GDP/end-period M3; ratio)	2.3	2.3	1.9	2.0	2.2	2.1	...	...	...	...	...
Reserve money	17.7	7.6	18.8	3.4	30.3	9.8	...	...	...	...	...
Credit to the economy	4.1	11.5	10.3	21.0	8.9	11.3	...	...	...	...	...
Credit to the economy, percent of GDP	21.0	21.4	24.4	24.4	23.3	22.9	...	...	...	...	...
	(Millions of U.S. dollars, unless otherwise										
External Sector Indicators 2/											
Current account balance	-1212	-1117	-901	-1699	-2498	-1951	-1853	-1849	-1882	-2082	-2210
Current account balance (percent of GDP)	-10.8	-9.5	-7.8	-12.4	-17.2	-12.2	-11.4	-10.4	-9.7	-9.6	-9.5
Remittances and compensation of employees (net)	1,669	1,729	1,669	1,826	1,519	1,793	1,937	2,092	2,259	2,440	2,635
Gross official reserves 3/	2,995	3,060	3,784	3,902	4,474	4,714	5,140	5,224	5,407	5,613	5,887
Gross official reserves (months of imports)	5.4	6.2	5.7	4.6	5.2	5.3	5.4	5.2	4.9	4.7	4.7
Exchange rate (Moldovan lei per USD, period average)	16.8	17.6	17.3	17.7	18.9	...	...	...	...	...	
Exchange rate (Moldovan lei per USD, end of period)	17.1	17.2	17.2	17.7	19.2	...	...	...	...	...	
Real effective exch.rate (average, percent change)	8.9	2.1	5.1	-1.6	11.3	...	...	...	...	...	
External debt (percent of GDP) 4/	67.6	61.9	70.0	63.3	66.2	67.3	71.8	71.2	69.8	67.8	66.8
Debt service (percent of exports of goods and services)	14.7	13.4	15.8	11.9	8.8	10.9	12.2	12.4	13.2	12.3	8.1

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.
2/ Balance of Payments (BOP) classification is revised in line with the Sixth
3/ Includes SDR allocation in 2021 (about US$236 million).
4/ Includes private and public and publicly guaranteed
Note: 2014-2020 GDP data recently revised by the Moldovan National Bureau of Statics, following an IMF TA.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

November 21, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENTS, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. The ECF/EFF-supported program has helped Moldova navigate headwinds, including from spillovers from Russia's war in Ukraine—energy crisis and record-high inflation—and a drought, while catalyzing additional external financing. Moldova was granted EU candidate status in June 2022. Strong reform momentum and growth-enhancing and climate-resilient investments are needed to foster long-term, sustainable development and convergence toward EU income levels.

Recent developments. Spillovers from the war continue to weigh on the economy. Following contraction by 5 percent in 2022, GDP further declined by 2.3 percent in the first half of 2023. A modest recovery is expected in the second half of 2023 and 2024, supported by strong agricultural production and a rebound in consumption and investment, as real wages and remittances recover, and risk perceptions improve. However, a negative output gap is expected to persist, and GDP will remain below pre-pandemic and pre-war trends. Uncertainty related to the war remains elevated and may slow down the recovery, and risks to the outlook are large and tilted to the downside.

Policies. The authorities continue to focus on measures to mitigate the impact of the multiple crises and support recovery, while also advancing longer-term reforms. Near-term fiscal policy should focus on supporting the most vulnerable and safeguarding energy security. As risks abate, policies should be geared to long-term development goals while preserving fiscal sustainability. Reforms to strengthen revenue mobilization and expenditure quality and efficiency are needed to support increased public investment. Monetary policy should continue to be data-driven and forward-looking. Further progress to strengthen NBM independence will preserve policy credibility and effectiveness. Maintaining financial sector stability is key to ensure macroeconomic stability, and ongoing reforms to strengthen financial-supervisory architecture and improve financial inclusion will support long-term development. Strengthening the

labor market, maintaining SOE reform momentum and continued efforts to address rule of law and corruption vulnerabilities are needed to contain fiscal risks, foster trust in public institutions, and improve the business environment.

ECF/EFF. Performance remains strong. All end-June quantitative performance criteria, continuous performance criterion, indicative targets (ITs), and the inflation consultation clause have been met, except for the IT on targeted social spending, which was missed due to savings from the Energy Vulnerability Reduction Fund; the same applies to the end-September ITs. The following structural benchmarks (SBs) were met: end-June SBs on anti-corruption and financial sector oversight; the end-September SB on general anti-avoidance rule provisions in the tax code; and the end-December SB on tax expenditures, which was met ahead of time. Corrective actions were taken regarding the reversed prior action for the third review on the mandate of anti-corruption institutions.

RSF request. The authorities request an RSF arrangement with access of 75 percent of quota (SDR 129.375 million or about $169 million) and duration of just over 22 months. Staff supports the authorities' request for an RSF arrangement. The RSF would support Moldova's efforts to foster greater climate investments, including to strengthen resilience against climate shocks, support energy sector reforms, enhance domestic financial sector preparedness, and mobilize sustainable finance.

Approved By:
Mark Horton (EUR) and Jarkko Turunen (SPR)

Discussions were held in person and remotely during September 25–October 16, 2023 in Chişinău. The mission met with Prime Minister Recean, Deputy Prime Minister and Minister of Economy Alaiba, Ministers of Finance Sirețeanu and Rotaru, Minister of Energy Parlicov, Minister of Justice Mihailov-Moraru, Minister of Labor and Social Protection Buzu, Minister of Agriculture Bolea, Minister of Infrastructure and Regional Development Spînu, National Bank of Moldova Governor Armaşu, Chair of the National Commission for Financial Markets Budianschi, General Director of the Public Property Agency Cojuhari, and other senior officials and representatives of financial institutions, international organizations, NGOs, the private sector, civil society organizations, labor unions and development partners. The mission team comprised C. Mira (head), A. Fouejieu, M. Marinkov, A. Roitman (all EUR), K. Funke, C. Gomez Osorio (both FAD), M. Markevych (LEG), A. Grohovsky (SPR), J. Podpiera, A. Zdzienicka (both MCM), and S. Cerović (resident representative). L. Dresse and V. Volociuc (OED) participated in the meetings. Y. Zha and R. Dumo (both EUR), and staff from the IMF office in Chişinău assisted the mission.

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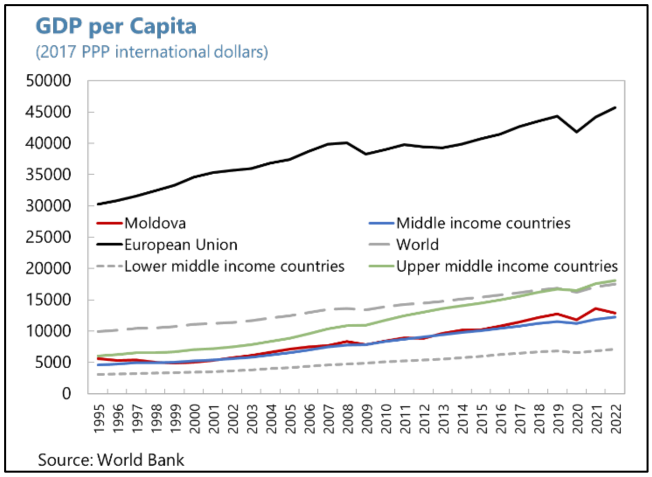
CONTEXT

1. **Strong growth over the last two decades improved living standards and reduced poverty, but Moldova remains among the poorest countries in Europe.** Growth averaged 4.5 percent, and poverty fell by 65 percent over 1995–2022. Still, there is a long way to convergence with EU living standards, and the pandemic and Russia's war in neighboring Ukraine took a severe toll on the economy.



2. **Implementation of the ECF/EFF program has been strong, despite a challenging environment.** Moldova has confronted multiple headwinds, including the energy crisis and other spillovers from the war, record-high inflation, and a drought. Initial program objectives—sustaining post-pandemic recovery, addressing pressing developmental needs, and strengthening governance and institutional frameworks—were expanded to address challenges from the war and catalyze external financing. The authorities have maintained reform momentum (Text Figure 1, MEFP Table 2, and Annex II) despite the difficult context and are requesting an RSF to enhance climate change resilience.

3. **Moldova became an EU candidate country in 2022.** In November, the EU Commission published its positive assessment of Moldova's progress to meet nine required pre-accession actions, which are consistent with ECF/EFF reforms and focus on rule-of-law, anti-corruption, and fiscal governance (Box 1). The EU Council is expected to make a decision in December on the start of accession negotiations, an important milestone. The political situation remains complex, with public support divided between the ruling pro-EU PAS party and opposition parties. Local elections took place in November 2023. Presidential elections are planned in 2024, and parliamentary elections will take place in 2025.

Box 1. Moldova's EU Accession Process

Moldova was granted EU candidate status in 2022; in November 2023, the EU Commission recommended that the European Council opens accession negotiations. According to the November 2023 EU Commission Enlargement Package, Moldova has achieved important progress towards completing the nine steps identified by the European Commission to advance its path to EU accession, that cover: (1) justice-system reform; (2) implementation of the Office for Democratic Institutions and Human Rights (ODIHR) and Venice Commission recommendations in the area of justice; (3) fighting corruption; (4) de-oligarchization; (5) fighting organized crime; (6) public administration reform; (7) PFM reform; (8) involving civil society in decision-making; and (9) strengthening protection of human rights. While more work is needed in the areas of justice, fighting corruption, and de-oligarchization, all other steps have been completed. In light of these results, the Commission recommended the Council to start accession negotiations. It also recommended that the Council adopt the negotiating framework once Moldova completes the remaining requirements. The Commission will report back to the Council by March 2024 on progress.

EU Accession Process

Source: European Commission (EC)

RECENT DEVELOPMENTS

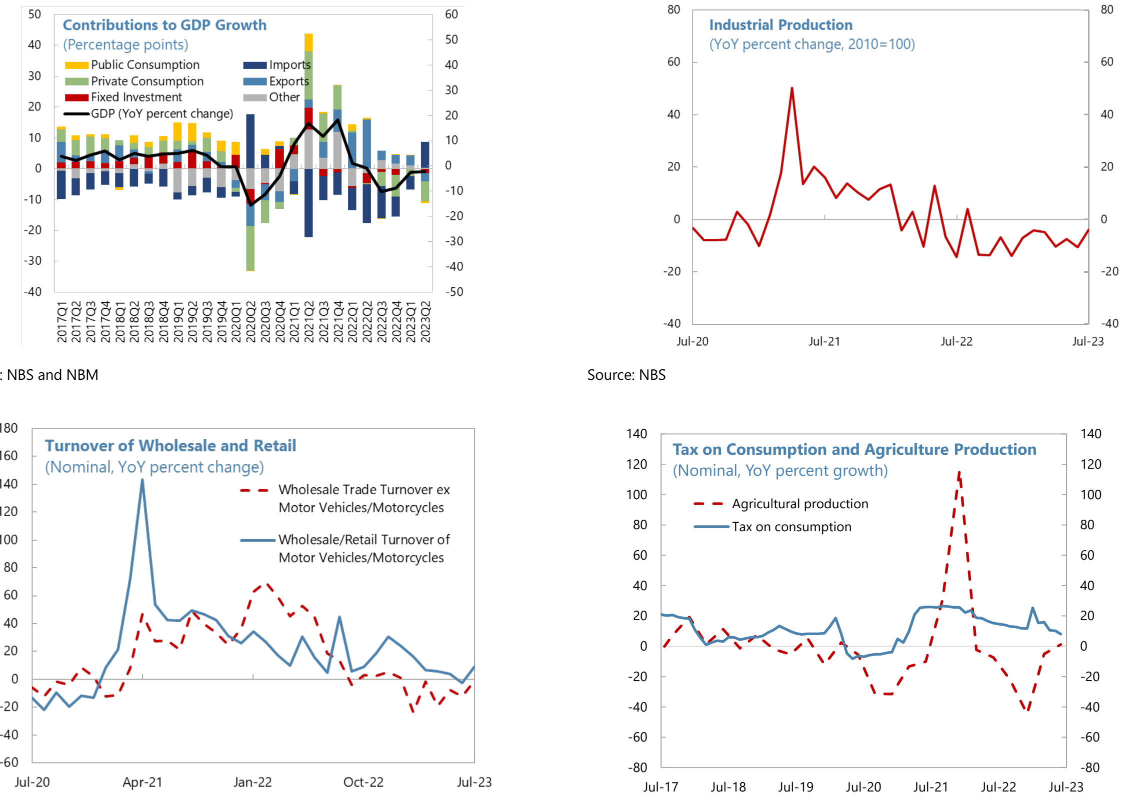
4. Activity remained weak in the first part of 2023, amid decelerating inflation:

- **The economy contracted by 2.3 percent y/y in 2023H1**, driven by a sharp decline of household consumption (-5.3 percent) and domestic investment (-3.5 percent), both affected by high inflation and uncertainty related to the war. Net exports contributed positively to growth, mainly due to import contraction.

- **Inflation decelerated faster than anticipated.** Headline inflation fell to 6.3 percent in October (from the October 2022 peak of 34.6 percent), driven by lower food and fuel prices, including due to the recovery in agricultural production from the 2022 drought, and a determined monetary policy response. Core inflation also declined in recent months (5.5 percent in October).

- **The labor market has shown some improvement.** Unemployment declined to 3.8 percent in 2023Q2, after reaching 5.5 percent in 2023Q1. It remains well above end-2021 levels.

Moldova: Real Sector and High Frequency Indicators



Sources: NBS and NBM

Source: NBS

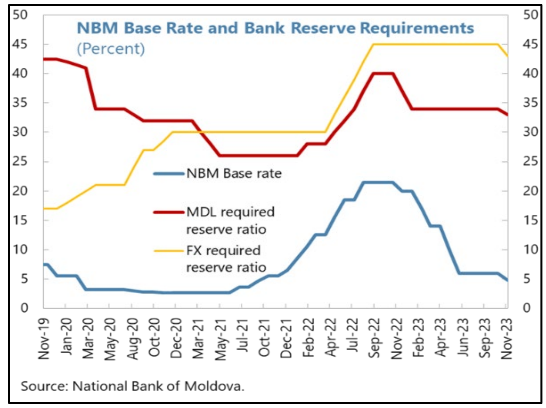
Sources: Haver and IMF staff calculation

Sources: NBS and IMF staff calculation

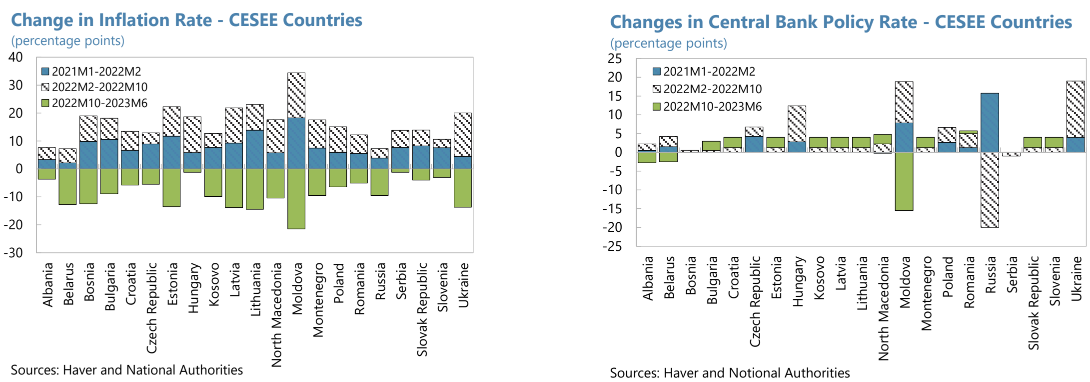
- **The external current account deficit improved in 2023H1 with recovery in transfers, lower imports, and strong services exports**. The deficit reached -12.4 percent of GDP, following a worsening in 2022 to -17.2 percent of GDP. Goods exports have remained weak, especially food and agricultural exports, although these are expected to recover in 2023H2 with an improvement in agricultural production. Imports are also lower and expected to decline slightly this year reflecting lower energy imports and subdued domestic demand. Staff assess that the external position as of end-2022 was substantially weaker than implied by medium-term fundamentals and desirable policies (Annex III).

5. The monetary policy response to the inflationary pressures was appropriate, and the National Bank of Moldova (NMB) has rebuilt its stock of FX reserves.

- **The NBM responded proactively to high inflation.** It tightened its stance ahead of the first wave of demand-driven inflationary pressures after the pandemic. As spillovers from the war amplified pressures, the NBM stepped up its tightening. Between July 2021 and August 2022, it increased the policy rate from 2.7 to 21.5 percent and tightened reserve requirements in FX and domestic currency by 15 and 14 ppts, respectively. This response was tighter than in peer countries due to more acute pressures, and inflation declined sharply and fell within the NBM's target (5 +/-1.5 percent) in October, sooner than anticipated. Given the inflation developments and outlook, the NBM started an easing cycle in December 2022, reducing the policy rate to reach 4.75 percent in November 2023. The current rate setting is in line with the inflation forecast. The NBM also lowered reserve requirements in domestic currency and FX by 1 ppt and 2 ppts, respectively, in November 2023.



CESEE Countries: Inflation and Monetary Policy



- **The leu appreciated by about 1 percent through mid-October compared to pre-war levels, supported by improved confidence, external support, and tight monetary policy.**[1] The NBM rebuilt FX buffers, with gross reserves accumulation of $1.1 billion since February 2022. The stock of FX reserves remains above 5 months of imports, and above the Fund's reserve adequacy metric (Figure 4), reflecting large external official flows from both multilateral and bilateral donors, an increase in reinvested earnings by foreign direct investors, and an increase in currency and deposits by both the bank and non-bank sectors. In line with the strong exchange rate (Annex III) and in order to smooth excess volatility, the NBM primarily purchased FX in 2023, particularly in the first half of the year, while interventions in the second half have been more muted. The NBM has sterilized some inflows, including through the use of repos in 2022 and the sale of NBM certificates in 2023.

6. The fiscal deficit is expected to reach 5 percent of GDP in 2023, reflecting revenue underperformance and budget under-execution.

[1] The leu depreciated by up to 9 percent after the war in Ukraine started in February 2022.

- **Total revenues in 2023 are underperforming compared to the May supplementary budget.** VAT collection shortfalls (by 1.5 percent of GDP) reflect lower-than-projected imports (fuel) and the effect of lower inflation on consumption taxes. Corporate income tax outturns were higher than-projected—as fewer companies used tax benefits on undistributed dividends; SOE dividends and interest on cash balances were also higher.

- **On spending, the 2023 budget prioritized response to the cost-of-living crisis, ensuring energy security, and addressing low civil service capacity**. Two supplementary budgets were adopted, in May and October, to allocate additional grants and reallocate resources from under-executing programs. The 2023 budget (and subsequent supplementary budgets) adequately provisioned to ensure energy security from alternative sources, and progress towards diversification was made.[2] Transfers to households cushioned the energy crisis impacts. The Energy Vulnerability Reduction Fund (EVRF) achieved 25 percent savings due to lower energy prices and favorable weather. Increases to the wage bill were 0.2 percent of GDP lower-than-expected in the May supplementary budget (third review), and included a combined across-the-board increase in May and a one-off payment for central government employees in Q4. In November, the authorities will receive MDL 1 bn of the 6.1 bn transfer to the energy utility company (Energocom[3]) in 2022 to address energy needs.[4] This buffer will contribute to finance the 2024 budget. Investment under-execution continued—70 percent execution is expected by end-year.

7. The financial sector remains sound and resilient, despite euroization, risks in the non-bank sector, and low credit growth. Soundness indicators show strong bank capital positions, with aggregate capital adequacy at 31.6 percent as of August, well above minimum requirements, adequate liquidity coverage (240 percent vs. prescribed 100 percent), and strong profitability, with ROE at 18.3 percent and ROA at 3.14 percent at end-August. Deposits are 15 percent above pre-war levels. However, bank credit to the economy grew by just 3 percent y/y in August, partly reflecting a slow pass-through of (lower) policy rates to lending rates.[5] NPLs increased slightly to 6.7 percent, reflecting weaker activity. Euroization of deposits remains elevated, at 37 percent, and bank funding interlinkages with non-bank lenders warrant close monitoring. The insurance sector shows adequate capitalization and liquidity, and continues to improve profitability, with ROE at 24.6 percent in H1 2023.

[2] Annex VIII.

[3] See MEFP ¶28, first bullet. Energocom is a state-owned company supplying energy utility (gas and electricity).

[4] The overall balance (incl. one-off items) in 2022 was revised downwards to reflect this development below-the-line.

[5] While the policy rate pass-through to deposit rates has been fast during the recent rapid tightening and loosening monetary policy cycles, banks increased the lending rates more gradually than the policy rate during the tightening phase, while benefiting from gains from their remunerated reserves requirements. During the loosening phase, banks also implemented a more gradual reduction of lending rates (relative to the base rate), reflecting elevated credit risks in an uncertain economic environment, and banks' objective to restore a healthy interest margin, against declining income from required reserves.

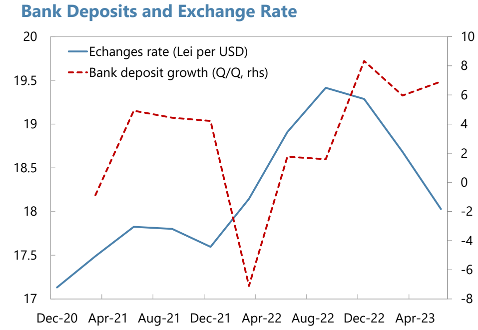
Figure 1. Moldova: Impact of Spillovers from the War in Ukraine

The economy has been hit hard due to geographical proximity to Ukraine (1,222 km of shared border), high dependence on energy imports, especially from Russia, and reduced fiscal buffers for crisis response following the pandemic, particularly in 2022.

The current account posted a record-high deficit of -17.2 percent of GDP in 2022, reflecting increased cost of imports (especially energy and food).

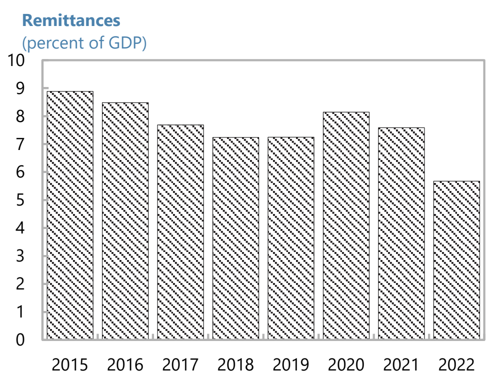
Sources: NBS and NBM

The leu depreciated by 9 percent, and bank deposits fell by 7 percent in March 2022 compared to December 2021, both due to adverse confidence effects, but subsequently recovered.



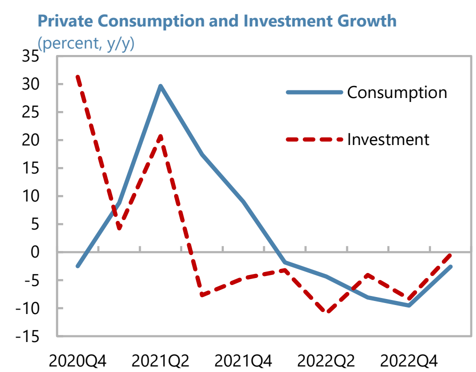
Source: NBM

Net remittances inflows in 2022 were 2 ppts of GDP lower than in 2021…



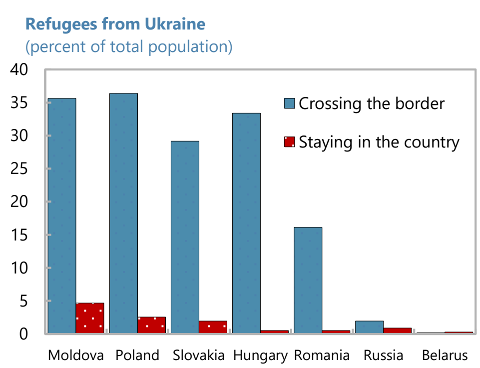
Sources: NBM

…adding pressures to household consumption and domestic investment, already affected by price increases and higher borrowing costs.



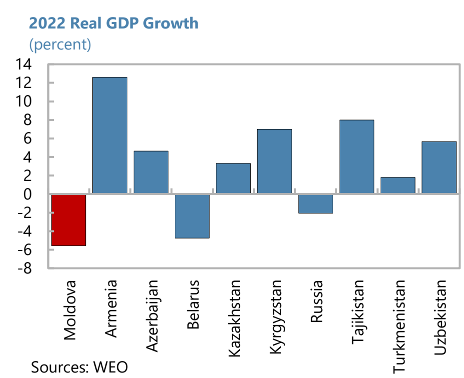
Sources: NBS

Moldova hosts by far the largest number of Ukrainian refugees per capita (4.7 percent of the total population).



Sources: UNHRC, EuroStat, Nantional Authorities

Real GDP contracted by 5 percent in 2022, with Moldova the most affected by spillovers from the war among CESEE countries.

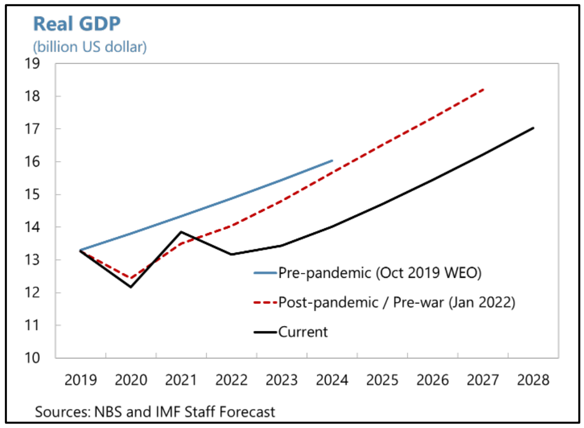


Sources: WEO

OUTLOOK AND RISKS

8. A gradual recovery is projected. The smaller-than-anticipated contraction in 2023H1 is expected to be followed by a moderate recovery in 2023H2-2024H1, with growth projected at 2 percent in 2023 and 3.9 percent in 2024. High frequency and sentiment indicators suggest a gradual recovery of domestic demand in the near term, as real wages and remittances pick up and risk perception improves. A good harvest in 2023H2 should boost growth in the following four quarters, although high production costs and lower sale prices—partly reflecting the impact of transit of Ukrainian agricultural products—point to lower value-added. Upward growth revisions for trading partners (Romania, Turkey, and Ukraine) in 2023–24 should support exports and growth.

9. Despite a pick-up of growth, war-related scarring is expected to be persistent. Relatively robust medium-term growth is projected, as war impacts dissipate and progress towards EU accession and on ECF/EFF and RSF structural reforms accelerate. Still, a negative output gap is expected to persist, with GDP remaining below pre-pandemic and pre-war forecasts. Acceleration of reforms is therefore critical. External financing needs will remain high.



10. The outlook remains highly uncertain, with large downside risks (Annex I). Persistence or escalation of the war poses risks, including through a new wave of refugees or deterioration of conditions in Transnistria. Additional energy shocks would weaken the outlook, worsen fiscal and external balances, and strain the social fabric. Political tensions, including linked to upcoming elections, could jeopardize reform momentum and weigh on external support. Moldova is susceptible to extreme weather events, which could negatively impact agriculture and growth. On the upside, faster-than-expected progress towards EU accession, faster growth in trade partners, and an acceleration of reforms could boost recovery.

Authorities' Views

11. The authorities concurred with staff's assessment of the outlook and risks. They acknowledged that the recovery has been slower than expected, while risks related to the impact of the war remain large. They noted that they are continuing to adjust contingency plans, including regarding energy supplies for the 2023–24 winter. They are working on policies to support the recovery and sustain medium-term growth, including measures to facilitate access to credit for small firms, foster digitalization of public services, reduce the administrative burden for businesses, and support greater labor-force participation.

PROGRAM PERFORMANCE

12. ECF/EFF performance remains generally strong, despite the challenging context.

- **End-June quantitative performance criteria (QPCs):** All QPCs, continuous PCs, indicative targets (ITs), and the inflation consultation clause were met, with the exception of the IT on targeted social spending, missed because the EVRF experienced savings given the milder weather and lower-than-expected energy prices (MEFP Table 1).

- **End-September 2023 ITs** were all met, except one on targeted social spending, again due to EVRF savings.

- **Structural conditionality:** The following structural benchmarks (SBs) were met: end-June SBs on rule of law and financial sector oversight; end-September SB on general anti-avoidance rule provision in the tax code; and end-December SB on tax expenditures (met early; MEFP Table 2). The authorities are making good progress towards meeting the end-December 2023 SBs on tax administration, institutional autonomy and governance of the NBM, and SOEs. The law implementing the third review prior action (PA) on the mandate of anti-corruption institutions was reversed, as the authorities revised the institutional anti-corruption framework in July to concentrate all investigations and prosecutions of high-level corruption in the Anti-corruption Prosecution Office (APO). Previously, some high-level corruption investigations were conducted by National Anti-corruption Center (NAC). The authorities concluded that NAC is best placed to continue investigations of low and middle-level corruption, as the police does not have the capacity to investigate corruption offences in the near term. Staff and authorities agreed on mitigating measures to ensure that the new anti-corruption framework is consistent and achieves its original objectives, through a new PA that reinstated to APO jurisdiction all (i) corruption-related offences listed in the UN Convention Against Corruption as committed by (ii) all high-level officials.

POLICY DISCUSSIONS

Discussions focused on the need to strike the right balance between the short-term policies to mitigate crisis impacts and support recovery, and advancing longer-term reforms to foster green, inclusive, sustainable growth and EU integration. Article IV discussions focused on reforms needed to boost growth, including with respect to fiscal policy, the financial sector, governance, the business environment, the labor market/education, climate change/energy, and EU accession.

A. Fiscal Policy: Supporting Recovery, Targeting Development, Strengthening Governance, and Safeguarding Energy Security

13. The 2024 budget will support growth-enhancing reforms including via infrastructure spending, while providing a moderate consolidation. Budget preparations are ongoing, with delays due to discussions on the October supplementary 2023 budget in Parliament. With an agreed target fiscal deficit of 4.6 percent of GDP, the budget is expected to prioritize better-targeted social assistance to the most vulnerable, preserve energy security, and further address civil service capacity constraints:

- Revenue mobilization through tax policy and administration reforms will create additional fiscal space (MEFP ¶12). Reforms include: (i) reducing tax expenditures, building on new, institutionalized tax expenditure reviews, (ii) expanding the VAT base and reducing exemptions, and (iii) harmonizing customs and tax policy procedures with EU directives (including by increasing excises on tobacco and alcohol).

- Expenditure reprioritization will favor infrastructure, subject to absorptive capacity, while preserving contingencies against fiscal risks and social policies. Pro-growth outlays will support private-sector development and infrastructure investment. Social assistance policies are expected to include better-targeted EVRF programs (with 5 months coverage) [6]; pension indexation in line with inflation; and an allocation to the most vulnerable via the Ajutorul Social Program. The authorities are considering civil service reforms to retain qualified staff and have requested follow-up IMF TA on wages.

14. Medium-term fiscal policies should balance development needs with consolidation to ensure fiscal and debt sustainability. Moldova's medium-term budget framework (MTBF) envisages deficit reduction to 3.1 percent of GDP by 2027, supported by: (i) additional reforms in tax policy and revenue administration, including preparation by Ministry of Finance of cost-benefit analyses to phase out tax expenditures (**new end-December 2024 SB**), reform of tax audit processes to reflect good international practice; and (ii) better efficiency in spending following implementation of PFM and PIM reforms. Policies aim to ensure that debt remains at the current low risk of debt distress, with the debt-to-GDP ratio below 45 percent, as agreed at program request. The authorities will improve targeting and integrate existing social programs (Ajutor Social, heating assistance allowance (APRA), and EVRF), with support from UN agencies and the World Bank. Additional grants and concessional financing remain critical (Table 2 borrowing plans), including to support climate-related investments.[7]

15. Improving the MTBF and strengthening PFM systems are key to enhancing credibility and addressing under-execution. Budget under-execution is a recurrent problem, undermining developmental objectives (Annex IV). Improvements in this area are expected to build on continuing work to strengthen public investment management, guided by 2019 Public Investment Management Assessment (PIMA) recommendations, the recent Climate-PIMA (C-PIMA), and plans to strengthen the MTBF preparation and implementation, also with IMF support. Enhancing spending efficiency is

[6] The 2024 EVRF allocation is expected to cover the 5 months of winter and reflect program savings in 2023, the lower-than-in-2022/23 international fuel prices, and the consolidation of the heating assistance allowance (APRA).

[7] Model simulations suggest that relying on commercial (non-concessional) debt for climate-resilient investments will endanger debt sustainability, while reducing medium-term growth benefits (crowding out private financing). See Selected Issues Paper.

a key priority; spending reviews in education and health should highlight the key reform areas in these sectors. Implementing the 2023–30 action plan under the PFM Strategy will also be critical to increase efficiency, performance, and transparency.

Moldova: External Borrowing Plans 2023–24
(In million, USD)

PPG external debt contracted or guaranteed	*External Borrowing Program, 2023*		*External Borrowing Program, 2024*	
	Volume of new debt, USD million	Present value of new debt, USD million	Volume of new debt, USD million	Present value of new debt, USD million
Sources of debt financing	**989.58**	**850.95**	**609.44**	**534.79**
Concessional debt, of which	**401.24**	**271.03**	**174.56**	**120.22**
Multilateral debt	293.11	217.28	174.44	120.18
Bilateral debt	108.13	53.74	0.12	0.04
Non-concessional debt, of which	**588.34**	**579.92**	**434.89**	**414.57**
Semi-concessional debt	588.34	579.92	434.89	414.57
Commercial terms				
Uses of debt financing	**989.58**	**850.95**	**609.44**	**534.79**
Project Investment	352.55	316.39	282.51	238.02
Budget financing	637.03	534.55	326.93	296.77

16. Although risks to energy security have eased, efforts to enhance supply and contain demand should continue, along with preparation of contingency plans and protection for the most vulnerable. With progress in reducing energy reliance on Russia, the authorities have continued to re-stock gas reserves in neighboring countries, taking advantage of lower European prices. An audit of Moldovagaz's debts to Gazprom was completed in September, although follow-up is unclear (possible litigation). The electricity sector remains dependent on one supplier, MGRES in Transnistria, with energy-security implications. These were exacerbated by month-to-month contracts (MEFP ¶¶2, 28); agreement in October on a contract through end-2024 is noteworthy. Cross-border capacity remains limited and at higher cost. Staff commended the authorities on preparing an action plan for the 2023–24 heating season, which considers various gas-supply scenarios and identifies preventive and mitigating measures. The authorities plan to continue using the EVRF to protect the most vulnerable from rising energy costs and have improved EVRF targeting, which staff also welcomed (MEFP ¶14).

Authorities' Views

17. The authorities broadly agreed with the fiscal policy assessment and recommendations. They stressed the need to continue cushioning impacts of the difficult external environment on the population. They aim to support growth-enhancing initiatives. The authorities stressed their commitment to improving budget execution, including by strengthening PIM and PFM systems, with IMF support. They pledged to continue work to further reduce energy vulnerability. They stressed the need for additional support from international partners.

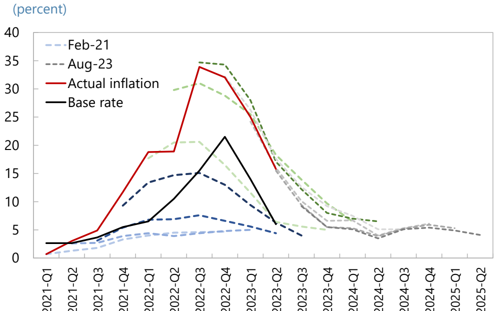
B. Monetary and Exchange Rate Policies: Maintain the Inflation-Targeting Framework and Strengthen NBM Independence

18. Monetary policy decisions should remain carefully calibrated. The NBM's forward-looking and data-driven policy response has been effective in anchoring inflation expectations. While the current policy stance is appropriate, future adjustments to the base rate should be guided by frequent assessment of the inflation outlook and the balance of risks, especially given the highly uncertain environment. The NBM should continue relaxing high reserve requirements as part of policy easing. This would support bank liquidity, private-sector credit, and aggregate domestic demand. Continued development of the financial market and further capital account liberalization, supported by recent IMF TA, carefully tailored to market conditions in the aftermath of the current crises, will help strengthen monetary policy transmission. Also, maintaining ER flexibility, while preserving sufficient FX buffers, will be critical to cope with new/longer-lasting shocks. Should risks materialize and pressures on the FX market re-emerge, FX interventions should be limited to preventing disorderly adjustments and curbing excess volatility, as was done at the beginning of the war.

19. Safeguarding NBM independence remains key for preserving policy credibility, achieving monetary policy objectives, and supporting macroeconomic and financial stability. Ensuring that the NBM can continue to operate within the principles of its inflation-targeting regime—including independence from political influence—will help preserve monetary policy credibility and support effectiveness. Despite progress, attempts to limit NBM autonomy persist. Accordingly, efforts to further strengthen NBM autonomy are welcome. These include staggering of the mandate of NBM non-executive board members (MEFP ¶18) and preparation of amendments that will be presented to Parliament, including: (i) granting the NBM operational autonomy over its assets, (ii) adjusting the administrative procedures code to eliminate inappropriate deadlines for the NBM supervision, and (iii) adding an explicit NBM mandate for financial stability and macroprudential policy (**new end-December 2023 SB**).

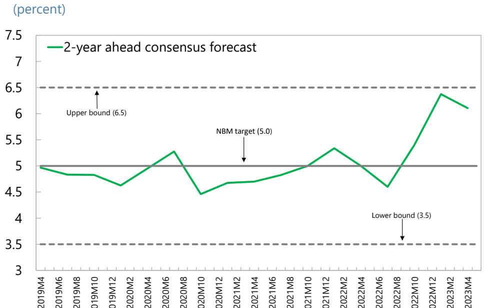
Moldova: Inflation and Monetary Policy

NBM Inflation Forecast and Policy Response
(percent)



Sources: NBM and NBS
Note: The dashed lines show consecutive NBM's forecat rounds from Feb 2021 to Aug 2023

Inflation Expectations
(percent)



Sources: Consensus Forecast

Authorities' Views

20. **The authorities broadly agreed with staff's assessment of monetary policy and the outlook.** The NBM emphasized that the weaker-than-anticipated fiscal impulse (budget under-execution) contributed to faster inflation deceleration via weaker domestic demand. The NBM also noted that it is carefully reviewing the setting of other policy instruments for future decisions, including the level and remuneration of reserve requirements.

C. Financial Sector Policy: Enhance Resilience and Governance

21. **Lingering financial sector legacies and uncertainty negatively affect credit intermediation, together with negative spillovers from the war.** Two banks still hold additional sizable capital and liquidity buffers against potential losses from ongoing litigation (Annex V), hindering lending (by 1 percent of GDP). Access and cost of credit remain issues, especially for SMEs—a legacy of the post-2014-bank-fraud tightening of credit standards. Easier access to borrower information, including by introducing a movable-collateral registry, crop, and warehouse receipts, opening financial statements, and other government data, could help reduce credit risk and cost. Uncertainty on renewed spillovers from the war weakens supply (banks hold large liquidity buffers) and demand for credit. The NBM should continue risk monitoring and follow developed contingency plans if risks elevate.

22. **Important steps have been taken towards strengthening the financial safety net and implementation of the EU Solvency II framework for the insurance sector** (end-June SBs). The NBM prepared a targeted review of the Bank Recovery and Resolution Law (BRRL) and relevant secondary legislation in line with good practices, and plans to pursue legislative amendments. In line with the 2022 Financial Sector Stability Review's (FSSR) TA Roadmap, IMF TA supported the reform of the bank liquidation framework. The insurance sector remains underdeveloped, offering limited products. It should undergo a balance-sheet review in the context of introduction of the EU Solvency II framework. The National Commission for Financial Markets (NCFM) adopted secondary legislation for insurance on licensing, qualified shareholders, and fit-and-proper and prudential requirements; the NBM plans to complete the remaining regulations for Pillars II and III of Solvency II (**new end-September 2024 SB**).

23. **Reforms to strengthen the financial-supervisory architecture and improve financial inclusion continue**. From July 1, the NBM became responsible for the regulation and supervision of the insurance sector, non-bank credit organizations, saving banks, and credit registries, while NCFM became the agency for financial consumer protection and capital markets. The unification of regulation and supervision in the NBM is expected to improve systemic risk supervision; ensure more adequate and experienced supervision and regulation of the transferred entities; and ensure a level playing field and effectiveness of macroprudential policy (Annex VI). Work is ongoing to develop the capital market (using an EBRD-prepared strategy) and a National Financial Inclusion Strategy (new **end-June 2024 SB**). The NBM is close to launching an instant payment scheme to facilitate cheaper, cashless payments and is preparing a PSD2-based open banking system and

application for Single Euro Payments Area (SEPA) membership. The authorities are also developing a national mechanism for monitoring cross-border payments to address risks from illicit financial flows, supported by IMF TA, and a toolkit for risk-based AML supervision.

Authorities' Views

24. The authorities broadly agreed with staff's assessment and reform priorities. They see the need to continue upgrading legal frameworks, especially for insurance and for NBM autonomy and to further boost financial sector resilience. They intend to deepen intermediation and inclusion through developing capital markets and instant payment system, while ensuring financial consumer protection.

D. Boosting Growth

Growth Model

25. The pre-war growth model needs to evolve to facilitate progress in convergence with EU living standards. The growth model—based on agriculture, remittances, and consumption—is unlikely to support sufficiently strong long-term growth, as underscored by a recent World Bank report[8]. In recent years, Moldova has experienced *low accumulation of capital,* held back by high uncertainty, borrowing costs, and limited fiscal space; *negative population dynamics*—due to aging and outmigration—worsening the shortage of skilled labor; and *low productivity growth,* hampered by low R&D, low efficiency of education investment, skills mismatches between the education system and the labor market, and poor quality of infrastructure. Addressing these factors, improving the business environment, bolstering market competition, and strengthening governance and institutional reforms remain essential to create an enabling environment for medium-term sustainable growth and to support Moldova's EU ambitions. Increased integration with the EU, including through expanding exports and deepening supply chain linkages, as well as a continuation of the recent growth of high-value services such as information technology, could boost growth in the coming years.

Strengthening the Labor Market

26. Beyond the current economic downturn, recent labor market developments reveal structural challenges. Measures of labor underutilization—time-related underemployment, potential labor force, and an increased population share not in education nor in employment or training (NEET) among tertiary and secondary educated groups—point to growing mismatches between labor demand and supply. Outmigration of skilled labor adds pressures, with increased vacancies in sectors such as public administration, financial and insurance, education, and health.

27. Reforms to unlock labor participation and boost productivity are critical. These include: (i) boosting efficiency of education expenditure; (ii) increasing average education levels and

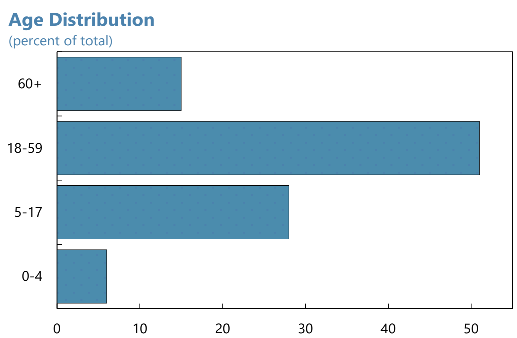
[8] Moldova—Country Economic Memorandum.

outcomes; (iii) addressing skill mismatches between labor supply and demand; and (iv) increasing the low labor-participation rate, including by closing the gender gap in labor force participation. A World Bank analysis finds that such reforms would have the largest long-term growth impact.[9] Strengthening the availability and affordability of childcare would boost female employment. To this end, the authorities have developed a National Program for Childcare Services for Children Under 3 Years and an accompanying action plan to address the challenges in access and quality of childcare. Job-market integration of Ukrainian refugees could also alleviate some labor force pressures (Figure 2).

Figure 2. Moldova: Ukrainian Refugees in Moldova

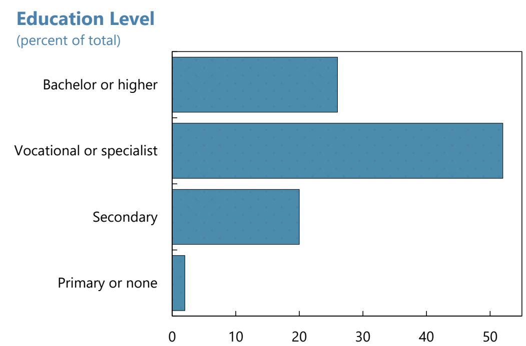
As of October 2023, Moldova was hosting over 110 thousand refugees from Ukraine (4.7 percent of the population). While the refugee population could present a source of labor supply for the Moldovan job market, only 1,200 were formally employed. Several factors explain low employment: low salaries, skills mismatches, limited access to childcare for women, and limited opportunities for flexible working arrangements.

Most refugees are within working age,



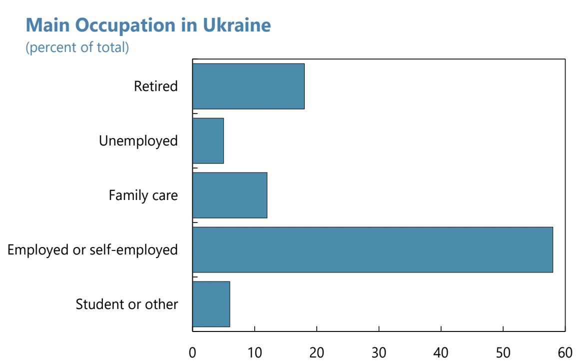
Sources: UNHRC and IMF Staff Caculations

… highly educated,



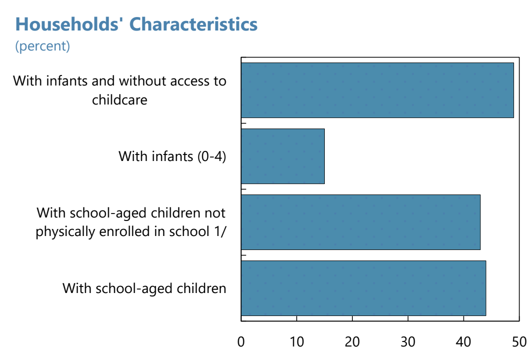
Sources: UNHCR and IMF Staff Calculations

… and previously had a job in the home country.



Sources: UNHCR and IMF Staff Calculations

But providing care for young children is contributing to limit their employment.



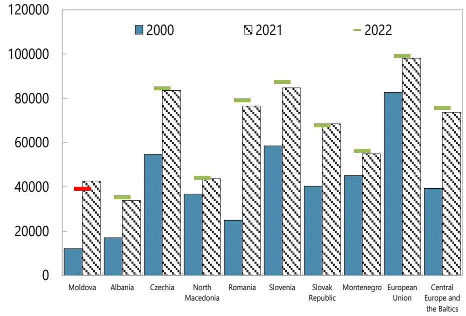
Sources: UNHCR and IMF Staff Calculations

1/ About 74 percent of households with shool-age children prefer online education from the home country.

[9] Moldova—Country Economic Memorandum

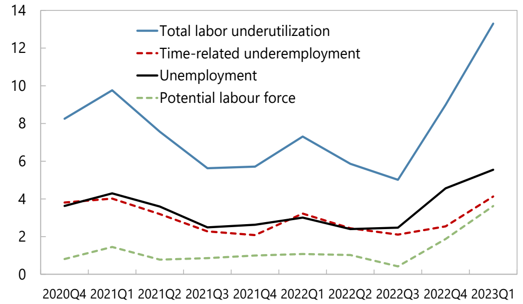
Figure 3. Moldova: Labor Productivity, Education Expenditure and Outcomes, and Gender Gaps in Labor Force Participation

Labor Productivity
(GDP per employed person, constant 2017 USD)



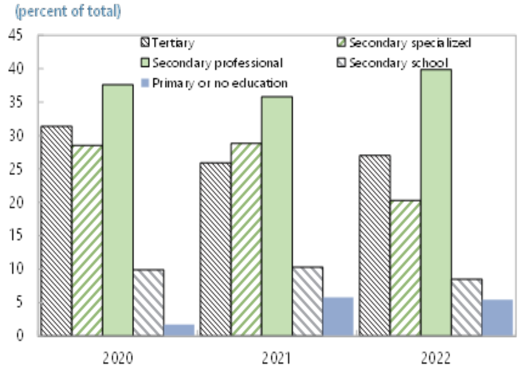
Sources: World Delopment Indicators

Labor Underutilization
(percent of active population)



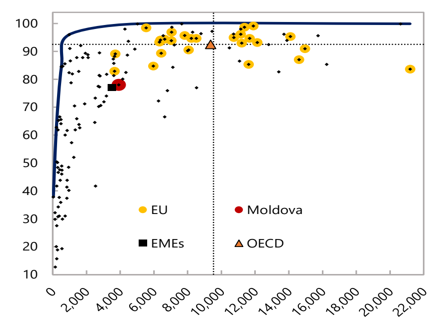
Sources: NBS
Note: Potential labor force includes people not in employment, available but not seeking, and those seeking but not avaliable. Time-related underemployed include people whose hours of work in the reference period are insufficient in relation to a more desirable employment situation in which the person is willing and available to engage.

Population Aged 15-24 NEET by Education Levels
(percent of total)



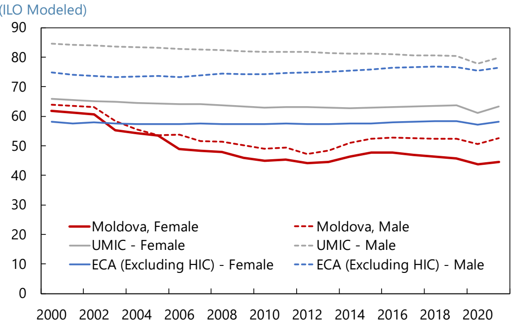
Sources: NBS

Government Education Spending and Outcome, secondary, Latest Value Available 1/



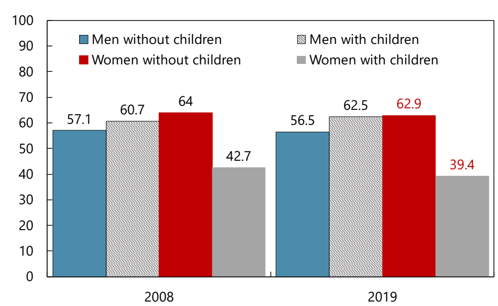
Source: IMF FAD Expenditure Assessment Tool.
1/ Dash lines are EU averages.

Labor Force Participation Rates, 15-64
(ILO Modeled)



Sources: NBS
Note: UMIC - upper middle income countries; HIC - high income countries; ECA - Europe and Central Asia countries

Employment Rate by Presence of Preschool Children, %



Sources: NBS and Generations and Gender Survey, 2020

Maintain SOE Reform Momentum

28. Moldova's large SOE sector faces elevated risks that amplify fiscal and macroeconomic vulnerabilities and undermine competition, productivity, and private investment.[10] With WB support, the government adopted regulations on selection of SOE supervisory board members and audits of SOEs in April. A recently-adopted SOE ownership strategy enhances SOE governance, reduces risks, and provides a foundation for future reforms (MEFP ¶27). The authorities have established a working group to complete a triage of SOEs at the central government level by classifying SOEs into five categories, those that will: (i) remain under state management, (ii) be privatized in the short-term, (iii) be privatized after reforms, (iv) be restructured into public institutions, and (v) be liquidated **(end-December SB).** Following this, they plan to put together a strategy for the SOEs at central government level that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks, (ii) a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss-making (**new end-September 2024 SB**).

Continue Strengthening Rule of Law and Address Corruption Vulnerabilities

29. Deeply-entrenched corruption has weakened rule of law, trust in public institutions, and Moldova's economy, undermining growth potential. Corruption also hinders private investment, stifles competition and innovation, and undermines effective implementation of state functions. Enhancing the rule of law in line with Venice Commission recommendations and reducing corruption is essential to speed up convergence towards the EU and is a key precondition for accession. The authorities have implemented a wide range of recommendations from the IMF's governance diagnostic in 2021 to strengthen its AML regime and rule of law and reduce vulnerability to corruption, but further progress is needed in both areas.[11]

30. The authorities continue pursuing reforms to combat high-level corruption, prioritizing increasing the investigative capacity of APO (MEFP ¶¶29-34). In July, the authorities charged APO with both prosecution and investigation of high-level corruption, necessitating strengthening its powers and capacity. Recognizing this, the authorities: (i) amended the Criminal Procedure Code to reinstate APO's mandate over all corruption-related offences and high-level officials that were omitted in July (**prior action**); and (ii) strengthened the budgetary independence of APO (**end-June 2023 SB**, met). The 2024 budget is expected to reflect costs of enhancing APO's capacity, including staffing, capital, and equipment allocations. A government-sponsored bill granting APO's investigative officers right to apply special investigative techniques, such as wiretapping, was adopted. For effective performance, APO should be granted greater operational autonomy, particularly over staffing, allowing for a leading role and decisive vote in the selection and transfer of prosecutors.

[10] IMF WP/22/50

[11] Selected Issues Paper on corruption and growth.

31. To complete the anti-corruption institutional infrastructure, the authorities are working to create an anti-corruption court. The court is intended to accelerate credible adjudication of corruption cases, important given low trust in the judiciary. To play its role, the law should establish a selection process ensuring appointment of anti-corruption judges with high reputation and professional qualities using objective criteria. A law to this effect, in line with the Venice Commission opinion, is planned to be adopted by early-2024 (**new end-March 2024 SB**).

Authorities' Views

32. The authorities broadly agreed with the assessment and key policy priorities. They noted that they are working on improving the business environment by simplifying procedures and regulations and stimulating digitalization. They are working on opening the labor market to foreign workers. They see reforms in the justice system and the fight against corruption as key elements to strengthen the business environment and support long-term growth, and agree on the need to strengthen the capacity of APO by ensuring sufficient staffing, equipment, and budget. The creation of a specialized anti-corruption judiciary is a priority justice-sector reform, and the authorities are considering models and revisions in light of the Venice Commission recommendations. The authorities reiterated their commitment to SOE reforms. They adopted the methodology for the triage in October and are addressing remaining legal issues to facilitate timely implementation of the triage.

RSF: ADDRESSING CLIMATE CHANGE CHALLENGES

33. Climate change is threatening the environment, key sectors, and social cohesion (Annex VII). Moldova is vulnerable to natural hazards (droughts, floods), the intensity of which is likely to increase due to climate change. Extreme events have led to significant losses (e.g., $1 billion, or 7 percent of GDP, for the 2007 drought), compressed household income for vulnerable groups, and raised concerns about food security. Extreme temperatures are the main cause for wildfires, which pose a threat to health, lives, and the environment. Agriculture is highly sensitive to climate change and extreme weather events. The authorities recognize these issues and are finalizing plans to address them at the sectoral level (water, agriculture). Management of climate events remains challenging.[12]

34. Moldova is committed to achieving its international and EU-accession obligations in emissions mitigation, while addressing energy security (Annexes VII and VIII). Moldova depends heavily on fossil fuel-based energy and geographically-concentrated imports for gas and electricity. Energy transition is a necessity for reducing emissions and ensuring energy security. The

[12] The Selected Issues Paper (SIP) will look at the opportunities and challenges of climate adaptation policies. The simulations based on the IMF DIGNAD model suggest that investment in adaptation could reduce economic impacts of natural disasters by two-thirds, while eliminating medium-term economic losses.

transition will require development of renewable energy sources (solar, wind) and supporting infrastructure (grid, storage, charging).[13]

35. Climate resilience and energy efficiency of public infrastructure is a growing concern. Floods threaten road and transport infrastructure, and energy inefficiency of public buildings are an increasing burden on the budget. Ensuring climate-resilient design and construction of new infrastructure will be essential for making efficient use of scarce public resources. Upgrading existing infrastructure, including public buildings, to enhance climate resilience and energy efficiency will require additional public investment.

36. Energy transition and adaptation to enhance climate resilience will require considerable additional investment. While total costs are difficult to quantify, the 2020 NDC puts adaptation investment needs at 2.5 percent of GDP per year over the next 10–15 years. Private participation in energy transition will be essential to achieve government objectives. The private sector will also need to invest in its own adaptation to climate change. The authorities and market participants acknowledge that access to sustainable financing is critical.

37. Sustainable finance has been picking up in Moldova, but effectively mobilizing and using sustainable finance face considerable obstacles. Multilateral and bilateral development partners have provided financing for sustainable projects via domestic commercial banks or government funds. Banks have also been using domestic deposits, and sometimes, intra-group financing lines. While exposure varies, green lending is picking up, reaching a significant share of banks' credit portfolios.[14] Banks aim at increasing green lending and include social and environmental responsibility in their strategic and operational objectives. However, mobilizing sustainable financing hinges on non-financial obstacles. National legislation and regulations are lacking, along with technical and administrative capacity and basic infrastructure. The overall business environment and country risks also limit foreign and domestic investors' appetite. Financial obstacles are significant and related to the lack of a sustainable finance framework (including a strategic plan, taxonomy, adequate guidance and regulations), bankable projects, financial instruments, risk-sharing mechanisms, and importantly, data/capacity to assess and manage climate-related financial risks.

38. The RSF will support the authorities' efforts to develop and implement strong macro-critical measures in the climate and energy areas, strengthen balance of payments stability, and catalyze financing for adaptation and mitigation (Text Figure 2; MEFP ¶38 and Table 3)**.** RSF reforms measures (RMs) aim to: (i) strengthen institutions and processes to enable larger-scale climate investments; (ii) support energy sector reforms; and (iii) enhance domestic financial sector

[13] Despite wind and solar potential, renewable sources remain undeveloped absent a regulatory framework for auctions. The authorities are working with the EBRD to strengthen the regulatory framework for renewable energy. Also, increasing renewable energy requires sufficient balancing capacity. Currently, only MGRES provides balancing—difficult to implement due to insufficient enforcement capacity of Moldova's energy regulator in Transnistria.

[14] Green lending has focused on renewable energy generation capacity and storage and energy-efficient equipment and transportation.

preparedness to mobilize sustainable finance and manage risks. RMs are informed by several diagnostics (IMF C-PIMA; WB pre-Country Climate and Development Report, pre-CCDR), TA (IMF's Climate Policy Assessment Tool (CPAT)), and consultations with the authorities, WB, IFC, and other development partners. Moldova's NDC and EU-accession obligations anchor all RMs. Given the cross-cutting nature of the RMs, the authorities and staff agreed that strong intra-governmental coordination will be critical for RSF implementation. The RSF targets four reform areas:

- ***Reform Area 1: Adaptation and Mitigation Policy and Disaster Risk Management (DRM).*** Additional efforts are needed to finalize the legal and institutional infrastructure to achieve climate-change objectives (Annex VII). The RSF aims to accelerate implementation of irreversible, high-quality, and high-depth measures that improve coordination of decision making on climate-related issues and enhance disaster risk management:

    - The Law on Climate Action will be adopted (see RM 1), including international climate commitments in national legislation and transposing the relevant EU directives, together with a legally binding commitment to climate neutrality by 2050 and the introduction of a carbon pricing mechanism as a first step in preparation for the participation in the EU emission trading system (ETS). A draft of the Law is under consultation with the ministries, with the Ministry of Environment leading the process. The Law will also support the establishment of an efficient institutional arrangement focused on the management of climate change, the National Commission on Climate Change (NCCC), responsible for cross-sectoral coordination of mitigation and adaptation policies, as well as reporting on and monitoring of GHG emissions.

    - Moldova's approach to DRM is incomplete, with the current framework focusing only on preparedness and response. The RSF will support the introduction of a more comprehensive and strategic approach to DRM to effectively manage disaster risks across the full DRM management cycle[15] (see RM 2). This would minimize the risks and costs of disasters and strengthen disaster recovery. In addition, while the geographic information system (GIS) mapping of single hazards, such as flood maps, are available, these have not yet been linked to the physical location of infrastructure assets to enable analysis of asset exposure and actions to reduce vulnerability, and have also not been recently updated. RM 3 aims to address this issue, with the development and dissemination of natural disaster risk and vulnerability maps enabling assessment of risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses.

- ***Reform Area 2: Energy Sector Policies.*** Moldova's energy sector has several weaknesses, including undeveloped renewables, reliance on electricity supply from Transnistria with an

[15] The Ministry of Environment plans to align Moldova's DRM with the Sendai framework. This framework, endorsed by the UN General Assembly, focuses on the organization and management of resources and responsibilities to address all aspects of emergencies and disasters, including preparedness, response, rehabilitation and recovery, and prevention and mitigation.

electricity system not ready for including substantial renewable energy sources (RES) in the energy mix, and VAT exemptions on energy consumption.[16] The RMs in this reform area aim to:

- Follow the cost-recovery principle, i.e., reflect the capital cost of infrastructure (investment as needed during the transition, as well as maintenance and replacement costs) and the operational costs (taking into account the current and the targeted energy mix), and achieve a gradual phasing-out of tax expenditures.[17] As such, RM 4 focuses on determining the cost-recovery rate for the provision of electricity and gas, considering tax expenditures; undertaking a distributional impact assessment; and closing gaps by adjusting the tariff or compensating the operating company transparently. This will be informed by CPAT analysis.

- Incentivize efficient energy consumption and ensure that price signals are fully preserved. The EVRF framework can be leveraged to build a resilient social assistance infrastructure, that provides adequate support to poor households and helps cushion the gradual phasing out of emergency energy subsidies. The EVRF reform envisaged in RM 5 aims to move towards more targeted-income support, with specific options proposed jointly with the WB and informed by CPAT, and converge toward an income support fully delinked from energy consumption.

- Facilitate private sector investment in RES while containing fiscal risks from power purchasing agreements (PPAs). One way to achieve this is through demand management policies (e.g., day-night tariffs), which can alleviate the pressure on the system and reduce the need for investment. The UNDP-supported project for piloting smart meters and the subsequent review of tariff differentiation options would support the design of such policies (see RM 6).

- The authorities also underscored that a key priority in their national strategy[18] is to ensure energy efficiency in buildings. By mid-2024, they will set in place an Energy Efficiency Residential Fund (funded transparently through the budget and/or from donor grants funding) under the Energy Efficiency Agency, for renovations of multi-apartment and individual-household buildings via grants and bank loans.[19]

- ***Reform Area 3: Enabling Climate-Smart Infrastructure Investment and Fiscal Management.*** This reform area aims to create an enabling environment to promote infrastructure investments that are green, resilient, and supportive of inclusive long-term growth. The RSF will support efforts to strengthen the process, starting from climate commitments to planning, project selection and budgeting, monitoring and evaluation, while considering macro-fiscal risks

[16] Standard VAT rate is 20 percent, with zero VAT on electricity and 8 percent VAT on gas for residential consumers. According to a recently-published tax expenditures report, these amounted to 0.4 percent of GDP in 2022.

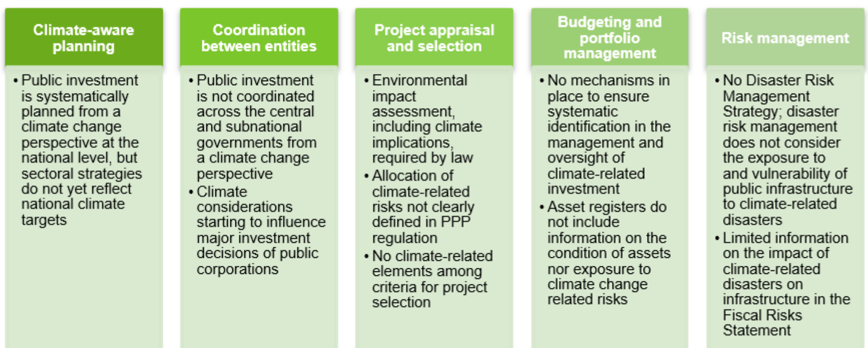
[17] Also based on SB 6, MEFP Table 2.

[18] European Moldova 2030

[19] Buildings account for almost half of the final energy consumption. Building renovations can potentially halve energy bills for consumers and contribute to Moldova's net-zero goal (Annexes VII and VIII).

associated with climate change. A climate-resilient PIM system should also address under-execution of public investment and attract other sources of financing. Supported by C-PIMA findings, the RMs in this reform area aim to: (i) integrate climate change adaptation and mitigation into project appraisal and selection (RM 7); (ii) include the Ministry of Environment in the project proposal and preparation stages, by providing views on climate impact and climate vulnerability of projects (RM 8); and (iii) ensure that the Ministry of Finance reports on climate spending allocations and subsequent climate spending execution in the regular budget documentation (RM9).

Moldova: Summary of C-PIMA Assessment



- ***Reform Area 4: Sustainable Finance Mobilization and Financial Sector Resilience.*** The NBM adopted Environmental, Social, and Governance (ESG) responsibility in its 2023–25 strategy and is developing a sustainable finance framework (with related regulations and supervision) in line with best international and EU practices and RSF objectives. To this aim, the NBM is also strengthening collaboration with governmental agencies, regulators, banks, and environmental experts, which will be further stepped up with the establishment and regular meetings and data/information sharing within the interagency steering committee on climate finance (RM 10). With support of development and domestic partners, the NBM is developing a sustainable finance strategy and a detailed action plan (RM 11). Its key pillars are a sustainable finance taxonomy (RM12), and progressively, other guidance and regulations. The NBM is strengthening its internal capacity to monitor, assess, report, and manage climate-related financial risks through training and collaboration with external partners. The NCFM will improve its capacity and regulatory framework to develop a sustainable domestic capital market (MEFP ¶22).

Figure 4. Moldova: Reform Measures for Moldova's RSF

Board Approval December 2023	**First Review** March 2024	**Second Review** July 2024	**Third Review** January 2025	**Fourth Review** July 2025
Reform Area 1: Adaptation and Mitigation Policy, and Disaster Risk Management	**RM1:** Government to: (i) adopt the Law on Climate Action enabling low carbon development and climate change resilience, and (ii) establish a National Commission on Climate Change (NCCC) under the Office of the Prime Minister, as part of the institutional arrangements for managing climate change with clear tasks and responsibilities and procedures (including regular meetings and reports) defined in the supporting government decree.	**RM2:** Government to approve a Disaster Risk Management (DRM) program which (i) covers the full spectrum of the Sendai framework, and (ii) defines an institutional framework with clearly assigned roles and responsibilities at the national and subnational level, including assigning the role for DRM coordination and strategic planning under the Office of the Prime Minister, e.g., to the NCCC.		**RM3:** Government to develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses.
Reform Area 2: Energy Sector Policies		**RM4:** Ministry of Energy to determine the cost-recovery rate for the provision of electricity and natural gas (fully reflecting operational and capital cost), (i) identifying any discrepancy between tariff and so defined cost recovery, considering tax expenditures, (ii) undertake a distributional impact assessment, and (iii) close any gap by adjusting the tariff or by compensating the operating company transparently from the budget. **RM5:** From the 2024-25 heating season onwards, in coordination with the World Bank and other development partners, and with the view to ensure that the price signals are fully preserved and incentivize efficient consumption: (i) assign the administration of payment provision from energy providers to the Ministry of Labor and Social Protection, and (ii) implement further measures to delink the provision of support under the EVRF from current energy consumption by providing targeted cash transfers to beneficiaries.	**RM6:** Based on the results from the ongoing pilot project collecting information through smart meters, Ministry of Energy to conduct a review for tariff differentiation options (e.g., day-night tariff) as a tool for managing demand fluctuations with the aim of facilitating balancing, also in light of renewable energy onboarding.	
Reform Area 3: Enabling Climate-Smart Infrastructure Investment and Fiscal Management		**RM7:** Government to include climate change impact and vulnerability assessment in the project appraisal (and project selection) methodologies.	**RM8:** Ministry of Environment to review and provide a written opinion of climate implications and climate vulnerabilities of projects and of the project portfolio included in budget submissions. **RM9:** Ministry of Finance to: (i) report on climate spending allocations at the budget stage, (ii) report on climate related spending execution, and (iii) include climate risks assessment in the Fiscal Risks Statement, including for fiscal risk from natural disasters to public and SOE infrastructure.	
Reform Area 4: Sustainable Finance Mobilization and Financial Sector Resilience	**RM10:** Establish an interagency steering committee (including the NBM, MOF, MOEDD, MOE, NCFM, and Moldovan Banks Association) on climate finance. **RM11:** The NBM to develop, adopt, and start implementing a Sustainable Finance Strategy ("Roadmap") and Action Plan for Moldova's financial sector.			**RM12:** The NBM to develop an advanced draft of the Sustainable Finance Taxonomy and start the public consultation process, to approve the taxonomy by December 2025.

Source: IMF Staff

PROGRAM MODALITIES

39. A 6-month extension of the ECF/EFF arrangements is proposed, along with a rephasing of disbursements (Table 9). The extension, until October 19, 2025, is warranted to ensure sufficient time to complete key reforms under the program, notably in governance and revenue mobilization.[20] An additional review will be added and disbursements rephased, with the current last disbursement split equally across the last two reviews.

40. Proposals for modification of ECF/EFF conditionality (MEFP Tables 1 and 2):

- Revision of the end-December 2023 inflation consultation band, in line with the revised forecast given rapidly-falling inflation.
- Revision of the end-March IT on targeted social spending, in line with revisions to EVRF allocations for 2024.
- Setting new quantitative targets to include June, September, and December 2024.
- Setting inflation consultation band targets to include June, September, and December 2024.
- New SBs on anticorruption adjudication infrastructure (SB 2), tax expenditures (SB 6), NBM independence (SB 9), Solvency II insurance framework (SB 10), financial inclusion (SB 11), and SOEs (SB 13).

41. The authorities request an RSF arrangement with access of 75 percent of quota (SDR 129.375 million or about $169 million) and duration of somewhat above 22 months.[21] Moldova is eligible for the RSF. RSF RMs and disbursements are attached to four reviews (Table 10 and MEFP Table 3). Proposed access is based on staff's assessment that: (i) the proposed reforms are strong, irreversible, and ambitious; (ii) debt is sustainable and the country's capacity to repay the Fund is adequate; and (iii) the concurrent ECF/EFF is underpinned by high-quality policies. Staff supports the authorities' intention to use RSF financing to replace expensive domestic financing.

42. The ECF/EFF continues to provide valuable financial assistance while catalyzing external support. The program remains fully financed—without RSF disbursements—for the next 12 months, with good prospects of financing for the remainder of the program (Text Table 2 and Table 6). Multilateral and bilateral donors have shown continued commitment to provide support. The external financing need in 2024 is expected to be met through disbursements from the ECF/EFF, World Bank, the European Commission, and the Agence Française de Développement. Additional

[20] Reforms in these areas include work to improve tax audit processes to reflect good international practice and achieve a fully risk-analysis-driven tax audit function in the STS in 2025. On governance, work to fully set up and operationalize the specialized anti-corruption institutional infrastructure is expected to take time.

[21] The RSF will last from its Board approval to the expiration of the underlying program on October 19, 2025.

financing from similar partners is likely to materialize in 2025 and beyond. The authorities intend to use ECF/EFF disbursements for budget support.

43. Capacity to repay the Fund is adequate but subject to risks (Figure 10 and Table 8). The Fund's exposure peaks at 6.9 percent of GDP in 2024, while total debt service to the Fund peaks at 2.4 percent of total exports in 2024. Moldova has a strong track record of repayments to the Fund, with public debt considered sustainable (see DSA). Moldova's risk of external debt distress remains low, while its overall risk of debt distress is assessed as moderate. Risks to the capacity to repay remain rooted in the volatile geo-political environment and the possibility of policy reversals. These risks are mitigated by the authorities' strong program ownership and their commitment to Fund-supported governance-focused reforms.

STAFF APPRAISAL

44. Spillovers from Russia's war in Ukraine continue to weigh on the Moldovan economy, with the impact expected to be persistent. Contingency plans helped mitigate energy crisis impacts, and progress was achieved in diversifying energy sources. The EVRF supported the most vulnerable, and work is continuing to improve its targeting. Following a contraction of 5 percent in 2022, growth remained negative in 2023H1. Inflation decelerated faster than anticipated, thanks to a timely and well-calibrated monetary policy response and rapid decline of food and fuel prices. Fiscal indicators have remained robust so far in 2023, and FX buffers have strengthened.

45. A modest recovery is expected in the near term. This will be supported by strong agricultural production and a rebound in consumption and investment, as real wages and remittances recover, and risk perception improves. Moldova became an EU candidate country in 2022, and work is ongoing to meet the required pre-accession actions, aligned with ECF/EFF reforms, and focusing on the rule of law, anti-corruption, and fiscal governance. The European Commission recommended in its November 8 report to open accession negotiations, an important milestone. Despite a gradual recovery of growth, a negative output gap is expected to persist in the medium term, and the outlook is highly uncertain with large downside risks, particularly linked to the war.

46. Policy priorities are striking a good balance between mitigating crisis impacts and supporting recovery and advancing longer-term reforms. Near-term fiscal policies should continue focusing on alleviating the impact of the crisis—supporting the most vulnerable and safeguarding energy security—while setting the ground to foster long-term growth (infrastructure investment, capacity). As risks abate, policies should be geared to long-term development goals while preserving fiscal sustainability. Improvements in budget execution and absorption are needed, along with reforms to strengthen revenue mobilization, governance, and spending quality and efficiency. Ensuring a gradual medium-term consolidation—with the deficit moving closer to 3 percent by 2027, and the debt-to-GDP ratio remaining below 45 percent—is necessary to ensure fiscal and debt sustainability. Support from the international community remains critical.

47. Monetary policy should continue to be forward-looking and data-driven, weighing the balance of risks. The NBM's timely and decisive response has helped mitigate inflationary pressures. The current policy stance is appropriate. Looking forward, the authorities should be guided by their forward-looking IT framework; and continue reducing high reserve requirements to support bank liquidity and credit intermediation; and continue relying on ER flexibility, while preserving sufficient FX buffers. The external position is assessed to be substantially weaker than the level implied by medium-term fundamentals and desirable policies. Further strengthening of NBM independence will protect policy credibility and effectiveness. Preserving financial sector stability is key to ensure macroeconomic stability, and ongoing reforms to strengthen financial-supervisory architecture and improve financial inclusion will support long-term development.

48. Ongoing institutional and policy reforms should contribute to boosting medium-term, sustainable growth and accelerate income convergence. Strengthening the labor market and enhancing productivity, scaling up infrastructure and human capital investment, advancing SOE reforms, increasing digitalization, and continuing to address rule-of-law and corruption vulnerabilities are essential to foster trust in public institutions, contain fiscal risks, and improve the business environment.

49. Performance under the ECF/EFF program remains strong. All end-June QPCs, continuous PCs, ITs, and the inflation consultation clause were met, except for the IT on targeted social spending, which was missed due to EVRF savings. End-June SBs on the rule of law and financial sector oversight have been met. Corrective actions have been taken to address the reversed prior action for the Third Review on the mandate of anti-corruption institutions.

50. Staff supports the authorities' request for an RSF arrangement. The RSF will support efforts to foster larger-scale climate investments, enhance resilience, catalyze financing for adaptation and mitigation, support energy sector reforms, and enhance domestic financial sector preparedness to mobilize sustainable finance.

51. Staff also recommends the completion of the Fourth Reviews under the ECF/EFF. Given the relatively strong performance to date and the authorities' continued commitment to sound policies and reforms, staff supports the completion of the Fourth Reviews under the ECF/EFF.

52. It is proposed that the next Article IV consultation take place on the 24-month cycle.

Figure 5. Moldova: Reform Implementation Under Moldova's ECF/EFF Arrangements, December 2021–June 2023

Governance Pillar	Policy Objective	Implemented Reforms
Anti-Corruption and the Rule of Law	**Strengthen anti-corruption institutions**	* Improved the selection process for the head of the Anti-Corruption Prosecution Office (APO), leading to recruitment in June 2022. * Enhanced operational autonomy of the APO by ensuring that it operates with an independent budget.
	Strengthen enforcement of the anti-corruption legal framework	* Amended the Criminal and Criminal Procedure Codes to add clear criteria and procedures for the application of plea bargaining and other sentence reduction.
Regulatory Framework	**SOE reforms to reduce fiscal risks and foster competition, productivity, and private investment**	* All SOEs at the central government level submit quarterly financial statements to the Public Property Agency. * Adopted a state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization, or liquidation, as well as plans to strengthen their governance.
Fiscal Governance	**Improve spending efficiency and fiscal sustainability**	* Publish reports on the execution of investment projects undertaken by extrabudgetary funds in the previous fiscal year. * Amended legislation and regulations to expand the coverage of the existing public investment management framework to include projects implemented by the state budget, externally funded projects, and extrabudgetary funds. * Expanded the coverage of a comprehensive IT-based staff registry to all central government employees.
	Strengthen revenue mobilization	* Published a comprehensive tax expenditure analysis of VAT and income taxes to identify tax relief provisions to be phased out. * Tax expenditure reviews institutionalized as part of the annual State budget planning process. * Integrated taxpayer register operationalized.
Financial Sector Oversight	**Strengthen the institutional autonomy and governance of the NBM**	* Strengthened provisions for the institutional autonomy of the NBM: (i) the procedures and criteria for the appointment, resignation and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) clarifying managerial responsibilities for the governor and the executive board.
	Strengthen financial safety nets to increase resilience	* NBM approved secondary emergency liquidity assistance (ELA) regulations to enhance rules for collateral eligibility, risk controls, and internal procedures. * Completed a targeted review of the Bank Recovery and Resolution Law (BRRL) and the relevant secondary legislation, in line with good practices.
	Address financial stability risks in the insurance sector	* Finalized the comprehensive solvency assessment report by a reputable auditing firm for all insurers issuing green cards. * The National Commission for Financial Markets (NCFM) adopted secondary legislation on insurance on licensing, qualified shareholders, and fit-and-proper and prudential requirements.

Source: IMF Staff.

Table 1. Moldova: Financing Needs and Sources, 2022–24

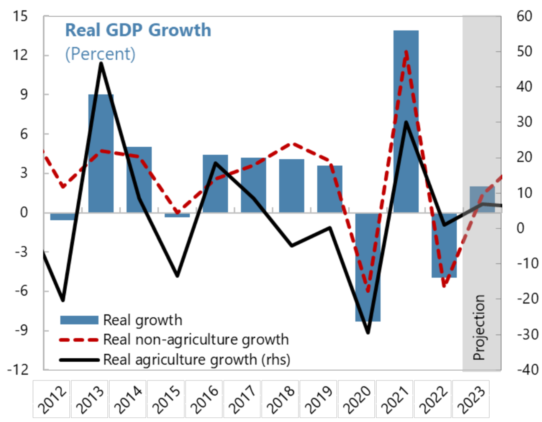
	2022	2023	2024
Fiscal, MDL millions			
Fiscal Financing Needs	18,844	24,889	17,226
Budget Sources	6,235	7,026	8,933
Net Domestic Issuance	-433	3,514	4,000
Use of funds in the single Treasury account	5,569	2,616	2,925
Other Domestic 1/	-2,043	-5,352	-670
External Project Loans 2/	3,142	6,248	2,678
IMF	3,262	4,246	2,832
ECF/EFF: Program	3,262	4,246	2,832
World Bank	3,015	4,300	916
DPO: Loan	2,841	1,950	916
DPO: Grant	174	2,350	0
European Commission	2,537	4,242	3,618
DG ECFIN: MFA Loans	710	1,983	2,182
DG ECFIN: MFA Grants	304	716	632
DG NEAR: Budget Support Grants	1,522	1,543	804
Bilateral Support	3,795	4,964	1,412
AFD: Budget Support Loan	304	881	1,412
AFD: Sectoral Support Loan	1,218	0	0
Government of Poland: Budget Support Loan	406	0	0
JICA: Budget Support Loan	0	1,950	0
Government of Romania: Grant	203	0	0
Government of Germany: Grant	812	0	0
Government of United States: Grant	568	1,560	0
Government of Norway: Grant	284	0	0
UNDP	0	573	0
Balance of Payments, USD millions			
BOP financing needs	1234	1183	940
Reserves drawdown 3/	-572	-300	-392
External financing	662	883	548
IMF 4/	172	218	270
World Bank	159	221	40
DPO: Loan	150	100	40
DPO: Grant	9	120.5	0
Bilateral Loans	100	141	66
France - AFD	79	41	66
Government of Poland	21	0	0
Japan - JICA	0	100	0
Bilateral Grants	98	107	0
Government of Romania	11	0	0
Government of Germany	42	0	0
Government of United States	30	80	0
Government of Norway	15	0	0
UNDP	0	27	0
European Commission	132	197	172
DG ECFIN: MFA Loans	37	92	104
DG ECFIN: MFA Grants	16	33	30
DG NEAR: Budget Support Grants	79	72	38

1/ Includes amortization of existing foreign project loans, privatization receipts, and some transfers between government bodies.
2/ Financing related to infrastructure projects.
3/ Positive (negative) numbers indicate reserve drawdown (buildup).
4/ Excludes RSF

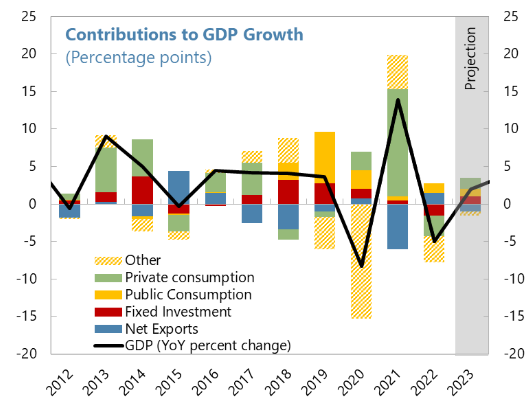
Source: IMF Staff.

Figure 6. Moldova: Real Sector Developments

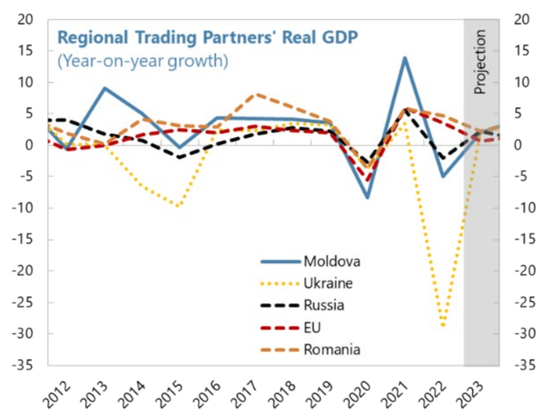
Economic activity contracted sharply in 2022



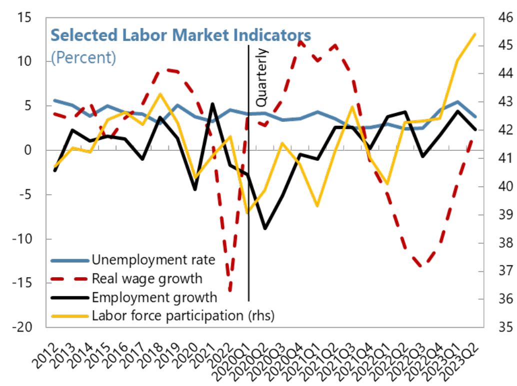
.... driven by lower private consumption and investment.



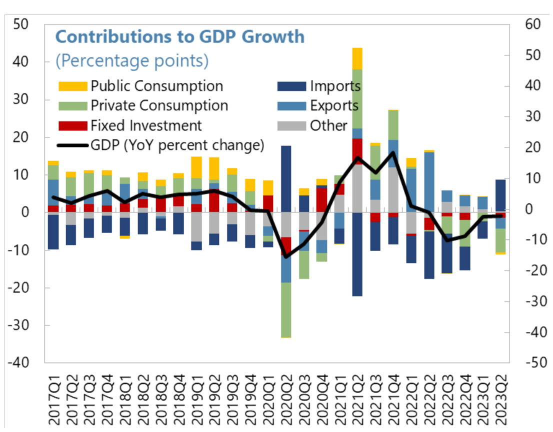
Key trade partners were adversely affected by the war in Ukraine.



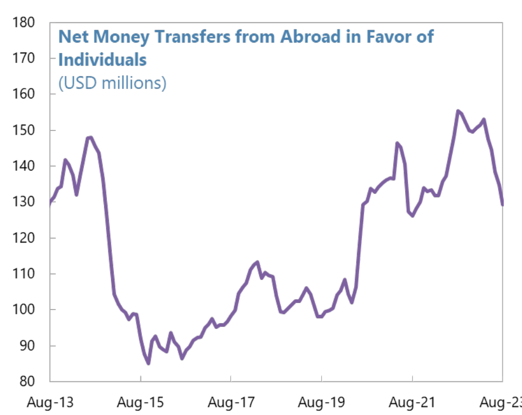
Real wages are recovering, driven by a rapid decline of inflation



The economy contracted by 2.2 percent in 2023Q2, yoy.



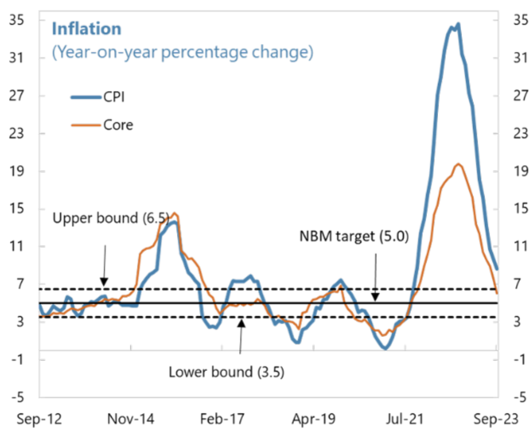
Foreign currency inflows are important to support consumption.



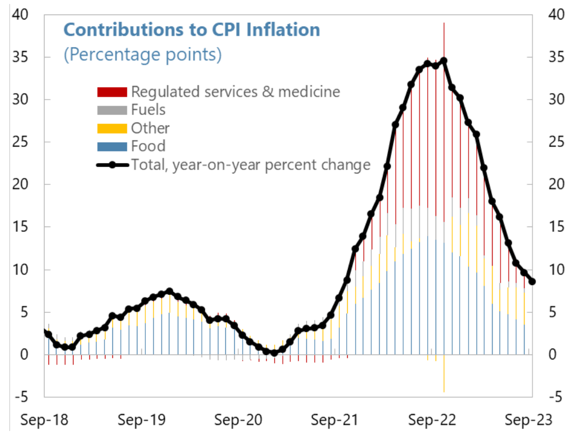
Sources: NBS, NBM, and IMF staff calculations.

Figure 7. Moldova: Monetary Developments

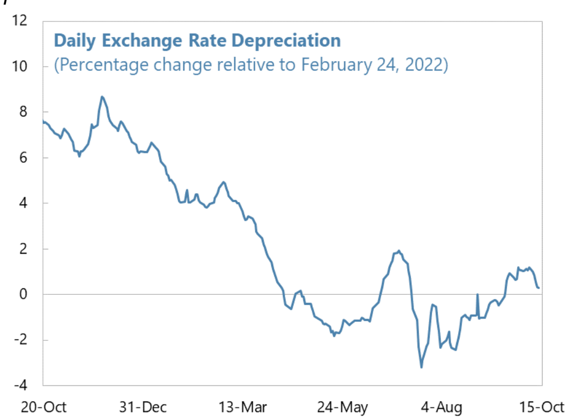
Inflation continued to decelerate in 2023…



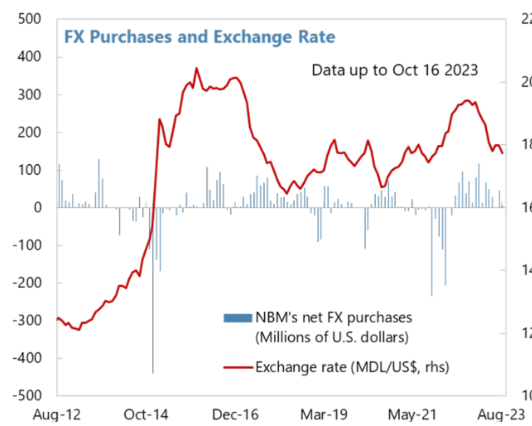
…driven by a decline of food and regulated prices



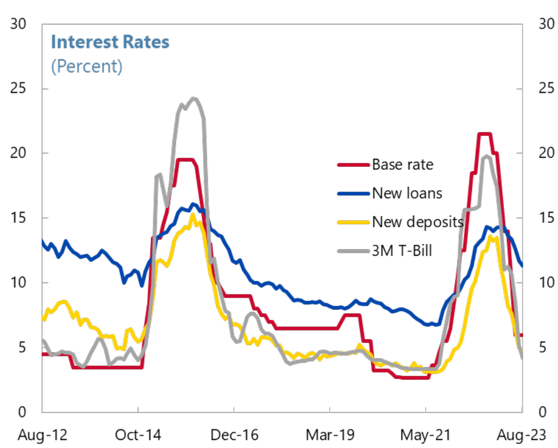
The leu appreciated by about 1 percent compared to pre-war level…



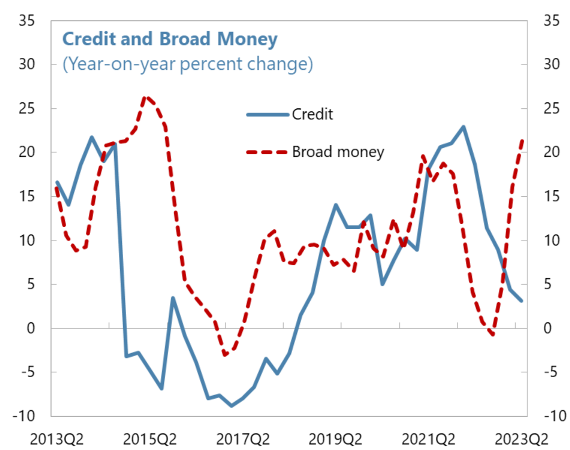
…and FX interventions have shifted to the buying side.



Credit conditions remain tight…



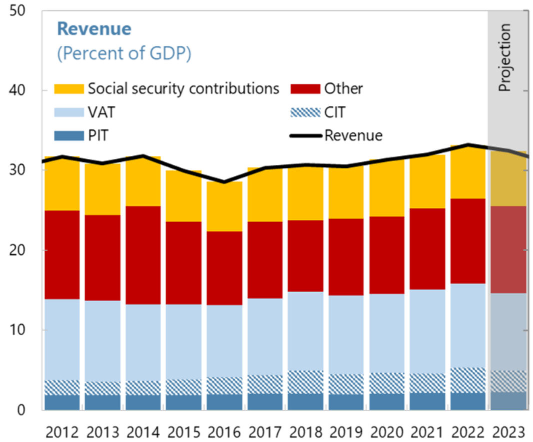
… reducing liquidity in the economy.



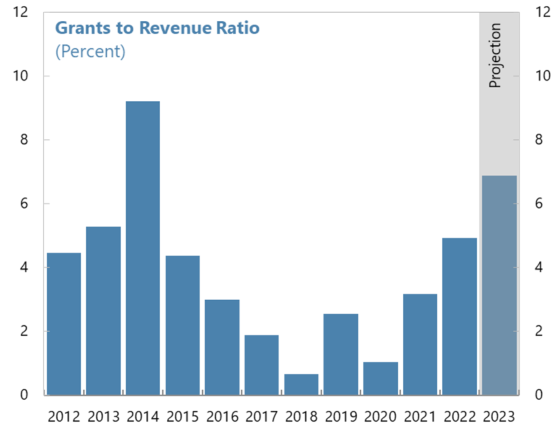
Sources: NBS, NBM, and IMF staff calculations.

Figure 8. Moldova: Fiscal Sector Developments

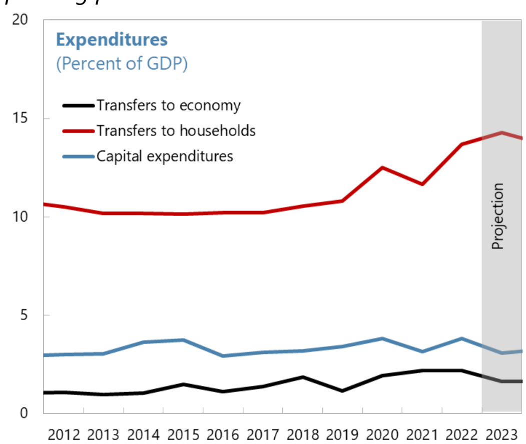
Revenue collection has underperformed so far in 2023....



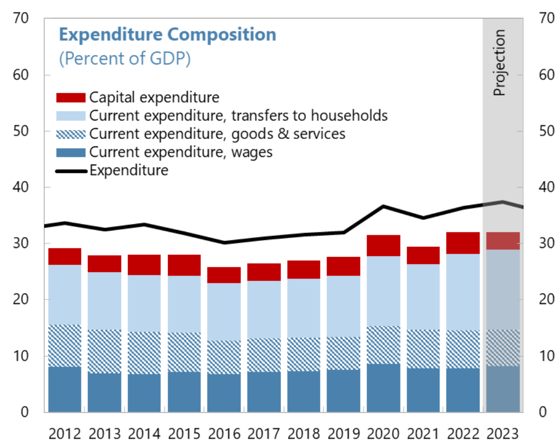
....but external support has remained favorable



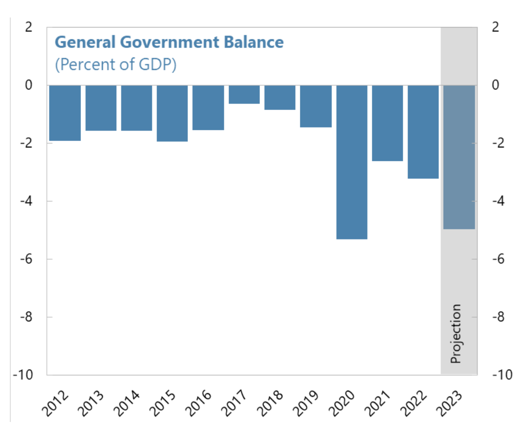
Spending pressures remain elevated...



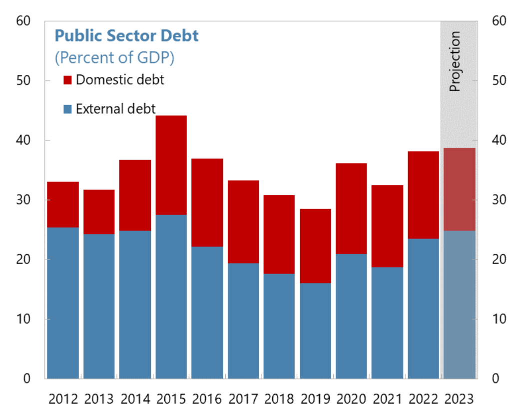
... as crisis demands on current spending persist.



The deficit is projected to be lower than the budgeted 6 percent in 2023.



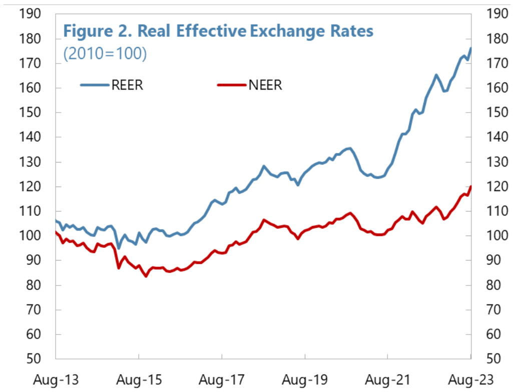
Public debt remains contained.



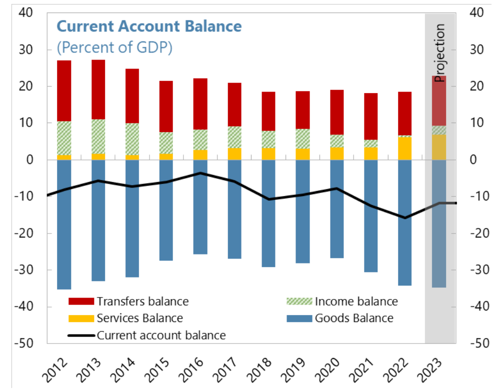
Sources: NBS, NBM, and IMF staff calculations.

Figure 9. Moldova: External Sector Developments

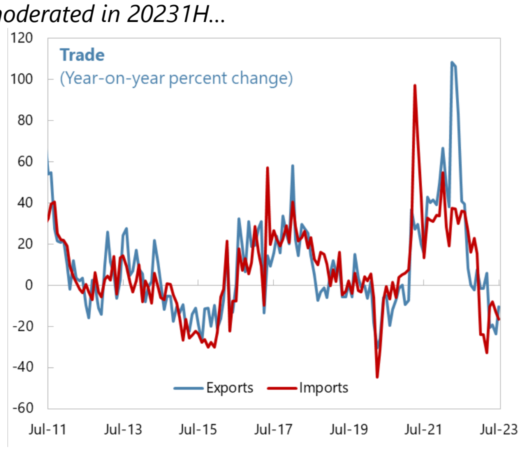
The NEER and REER have recently strengthened.



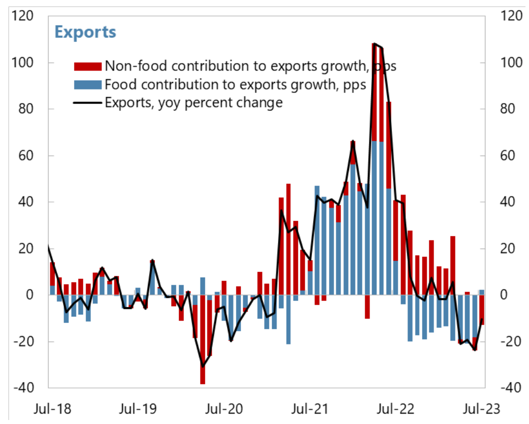
The current account deficit is projected to improve in 2023.



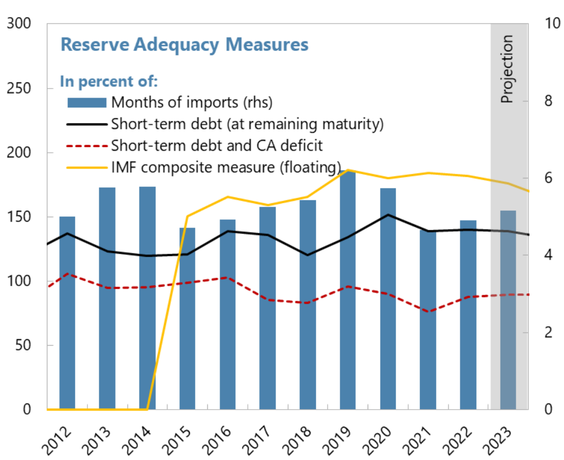
Exports performed strongly in 2022, though have moderated in 20231H...



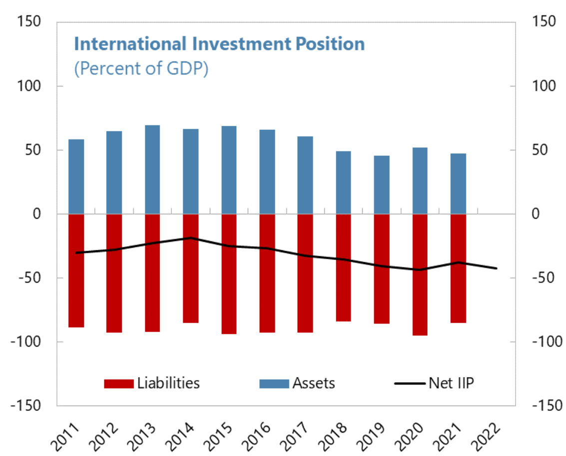
....as the 2022 increase in food exports has reversed.



Reserve adequacy metrics remain favorable....

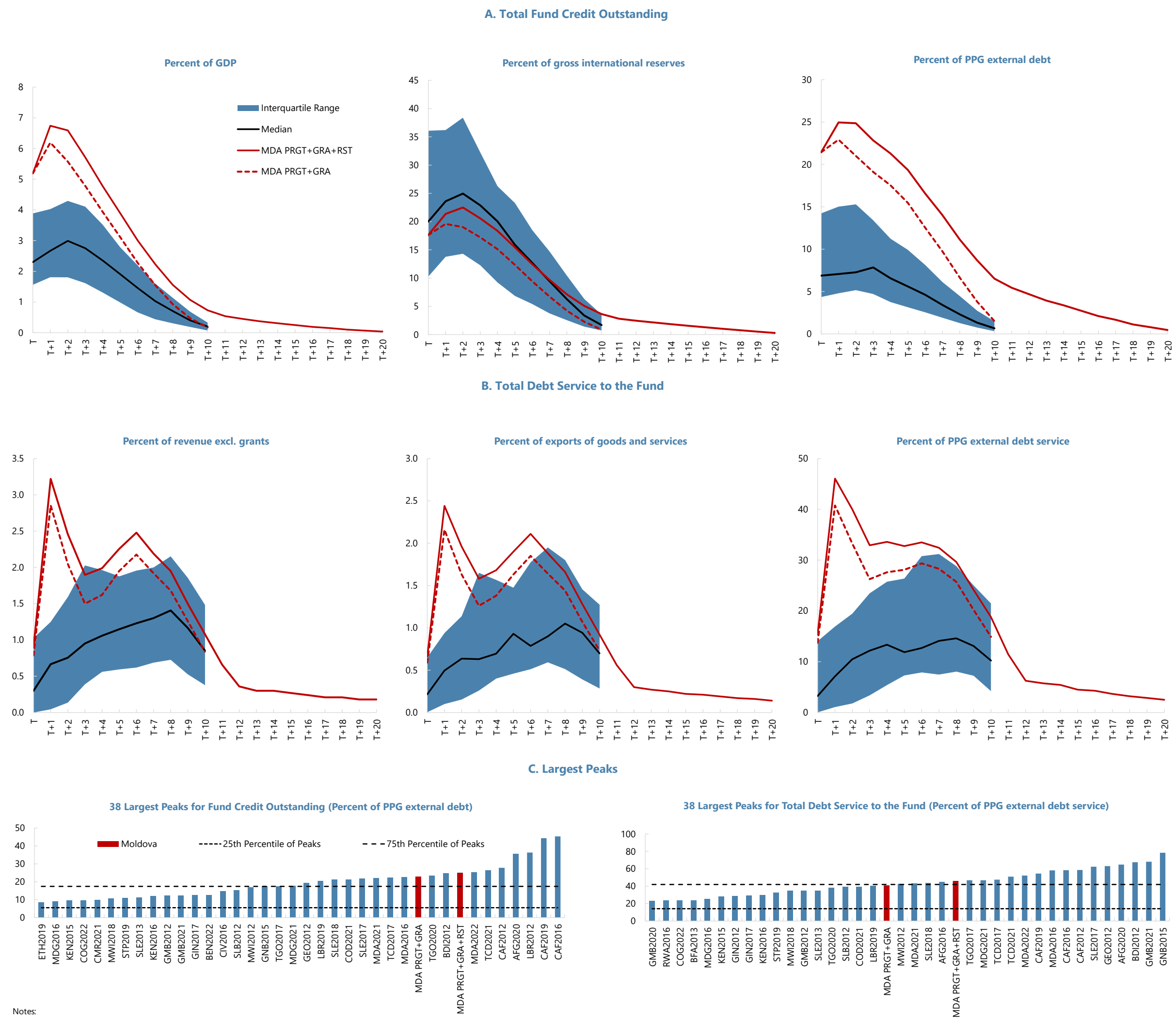


.... though net IIP worsened after improving in 2021.



Sources: NBS, NBM, and IMF staff calculations.

Figure 10. Moldova: Capacity to Repay Indicators



Notes:

1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
4) PRGT countries in the control group with multiple arrangements choles are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Table 2. Moldova: Selected Economic Indicators, 2018–2028 1/

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(Percent change, unless otherwise indicated)						
Real Sector Indicators											
Gross domestic product											
Real growth rate	4.1	3.6	-8.3	13.9	-5.0	2.0	3.9	4.8	5.0	5.0	5.0
Demand	8.5	4.1	-7.5	16.6	-5.1	2.3	4.2	5.0	5.3	5.4	5.2
Consumption	3.2	3.7	-7.9	14.8	-1.4	2.4	3.5	4.4	4.3	4.4	4.5
Private	-1.5	-0.9	2.9	17.4	-3.3	1.8	3.0	4.0	4.0	4.2	4.3
Public	15.7	47.6	16.1	3.0	7.5	6.0	6.0	6.4	5.5	5.5	5.5
Gross fixed capital formation	14.4	12.0	5.6	1.9	-6.4	3.9	5.8	7.2	7.3	7.5	7.7
Net Exports of goods and services	-14.3	-3.8	2.8	-25.6	5.3	-3.4	-5.2	-6.0	-6.7	-6.9	-6.1
Exports of goods and services	4.1	8.2	-14.9	17.5	26.8	4.7	6.7	7.3	7.1	7.0	7.0
Imports of goods and services	8.4	6.2	-9.5	21.2	11.7	4.2	6.1	6.8	6.9	6.9	6.7
Nominal GDP (billions of Moldovan lei)	189.1	206.3	199.7	242.1	275.6	312.0	342.0	378.1	418.8	463.9	513.9
Nominal GDP (billions of U.S. dollars)	11.3	11.7	11.5	13.7	14.6	16.0	16.3	17.8	19.5	21.6	23.4
Consumer price index (average)	3.6	4.8	3.8	5.1	28.6	13.4	5.0	5.0	5.0	5.0	5.0
Consumer price index (end of period)	0.9	7.5	0.4	13.9	30.2	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	3.2	5.3	5.6	6.4	19.8	11.0	5.5	5.5	5.5	5.5	5.5
Average monthly wage (Moldovan lei)	6,443	7,356	8,104	8,619	9,328	10,775	11,750	12,925	14,225	14,225	14,225
Average monthly wage (U.S. dollars)	383	419	468	488	493	553	560	610	662	662	647
Unemployment rate (annual average, percent)	3.1	5.1	3.8	3.3	4.6	4.9	4.2	4.2	4.2	4.2	4.2
					(Percent of GDP)						
Saving-Investment Balance											
Foreign saving	10.8	9.5	7.8	12.4	17.2	12.2	11.4	10.4	9.7	9.6	9.5
National saving	15.8	15.6	14.9	13.3	7.4	10.8	12.1	13.3	14.7	15.2	15.7
Private	12.9	13.4	16.2	12.8	6.7	11.6	13.4	13.6	14.3	14.3	14.1
Public	2.9	2.2	-1.3	0.6	0.7	-0.8	-1.3	-0.3	0.4	0.9	1.6
Gross investment	26.6	25.1	22.7	25.8	24.6	23.0	23.5	23.7	24.3	24.8	25.1
Private	23.0	21.5	19.2	22.4	20.9	20.0	20.4	20.3	20.6	20.8	20.9
Public	3.6	3.6	3.5	3.3	3.7	2.9	3.1	3.4	3.7	4.0	4.2
Fiscal Indicators (General Government)											
Primary balance	-0.2	-0.8	-4.7	-2.0	-2.3	-4.4	-3.5	-2.8	-2.6	-2.3	-1.8
Overall balance	-0.9	-1.5	-5.3	-2.6	-5.1	-5.0	-4.6	-3.8	-3.4	-3.1	-2.6
Stock of public and publicly guaranteed debt	30.4	28.1	35.6	34.6	36.4	37.1	38.2	37.6	36.9	35.0	33.0
					(Percent change, unless otherwise indicated)						
Financial Indicators											
Broad money (M3)	7.8	8.2	19.6	11.3	5.2	15.2	…	…	…	…	…
Velocity (GDP/end-period M3; ratio)	2.3	2.3	1.9	2.0	2.2	2.1	…	…	…	…	…
Reserve money	17.7	7.6	18.8	3.4	30.3	9.8	…	…	…	…	…
Credit to the economy	4.1	11.5	10.3	21.0	8.9	11.3	…	…	…	…	…
Credit to the economy, percent of GDP	21.0	21.4	24.4	24.4	23.3	22.9	…	…	…	…	…
					(Millions of U.S. dollars, unless otherwise indicated)						
External Sector Indicators 2/											
Current account balance	-1212	-1117	-901	-1699	-2498	-1951	-1853	-1849	-1882	-2082	-2210
Current account balance (percent of GDP)	-10.8	-9.5	-7.8	-12.4	-17.2	-12.2	-11.4	-10.4	-9.7	-9.6	-9.5
Remittances and compensation of employees (net)	1,669	1,729	1,669	1,826	1,519	1,793	1,937	2,092	2,259	2,440	2,635
Gross official reserves 3/	2,995	3,060	3,784	3,902	4,474	4,714	5,140	5,224	5,407	5,613	5,887
Gross official reserves (months of imports)	5.4	6.2	5.7	4.6	5.2	5.3	5.4	5.2	4.9	4.7	4.7
Exchange rate (Moldovan lei per USD, period average)	16.8	17.6	17.3	17.7	18.9	…	…	…	…	…	
Exchange rate (Moldovan lei per USD, end of period)	17.1	17.2	17.2	17.7	19.2	…	…	…	…	…	
Real effective exch.rate (average, percent change)	8.9	2.1	5.1	-1.6	11.3	…	…	…	…	…	
External debt (percent of GDP) 4/	67.6	61.9	70.0	63.3	66.2	67.3	71.8	71.2	69.8	67.8	66.8
Debt service (percent of exports of goods and services)	14.7	13.4	15.8	11.9	8.8	10.9	12.2	12.4	13.2	12.3	8.1

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

2/ Balance of Payments (BOP) classification is revised in line with the Sixth Balance of Payments Manual (BPM6). Review columns reflect BOP according to BPM5

3/ Includes SDR allocation in 2021 (about US$236 million).

4/ Includes private and public and publicly guaranteed debt.

Note: 2014-2020 GDP data recently revised by the Moldovan National Bureau of Statics, following an IMF TA.

Table 3a. Moldova: Balance of Payments, 2018–2028 [1/]

(Millions of U.S. dollars, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-1,212	-1,117	-901	-1,699	-2,498	-1,951	-1,853	-1,849	-1,882	-2,082	-2,210
Merchandise trade balance	-3,294	-3,312	-3,094	-4,190	-5,193	-5,478	-5,544	-5,859	-6,324	-6,957	-7,579
Exports	1,975	2,118	1,944	2,562	3,701	3,316	3,582	3,761	3,956	4,162	4,433
Imports	5,269	5,430	5,039	6,752	8,894	8,794	9,126	9,620	10,281	11,119	12,012
Services balance	356	365	398	473	908	1,095	1,298	1,537	1,811	2,084	2,397
Exports of services	1,477	1,544	1,278	1,635	2,279	2,656	2,922	3,287	3,698	4,160	4,680
Imports of services	1,121	1,178	880	1,162	1,371	1,561	1,623	1,750	1,887	2,076	2,284
Income balance	536	615	390	267	60	438	588	628	675	716	771
Compensation of employees	854	878	730	787	728	844	912	985	1,063	1,148	1,240
Income on direct and portfolio investment	-316	-262	-339	-524	-673	-412	-330	-363	-394	-438	-476
Other income	-2	-2	-1	4	5	6	6	6	6	6	6
Current transfer balance	1,190	1,214	1,406	1,752	1,727	1,994	1,804	1,846	1,956	2,075	2,201
Remittances	815	851	939	1,039	791	949	1,025	1,107	1,196	1,291	1,395
Budget transfers	100	206	96	105	120	384	99	38	39	40	41
Other transfers	275	157	371	608	816	660	680	700	721	743	765
Capital and Financial Account Balance	-1,391	-1,191	-1,239	-1,443	-2,334	-1,687	-1,768	-1,881	-2,086	-2,328	-2,559
Capital account balance	-36	-55	-66	-51	20	-41	-47	-48	-50	-53	-55
Financial account balance (inflows: "-")	-1,427	-1,246	-1,304	-1,494	-2,314	-1,728	-1,815	-1,929	-2,137	-2,380	-2,614
Foreign direct investment, net (inflows: "-")	-259	-468	-152	-372	-541	-356	-373	-404	-478	-529	-581
Portfolio investment and derivatives, net	5	-15	1	-5	-1	-3	-4	3	3	2	3
Other investment, net	-1,173	-763	-1,153	-1,117	-1,773	-1,369	-1,438	-1,528	-1,661	-1,854	-2,035
Loans	-111	-122	-210	-149	-158	-323	-157	93	153	155	45
General government, net	17	1	-100	-66	-26	-269	-28	214	284	287	178
Private sector, net	-128	-123	-110	-83	-132	-54	-129	-121	-131	-132	-133
Other capital flows, net	-1,061	-641	-943	-968	-1,614	-1,046	-1,281	-1,621	-1,815	-2,009	-2,080
Errors and omissions	47	22	62	18	24	0	0	0	0	0	0
Overall Balance	226	97	400	-238	-139	-264	-85	32	204	246	349
Financing	-226	-97	-400	238	139	264	85	-32	-204	-246	-349
Gross international reserves (increase: "+")	236	281	386	206	637	240	426	84	184	206	274
Use of Fund credit, net (excl. RSF)	-55	-36	186	-10	141	162	302	13	-60	-80	-116
Monetary authorities	-41	-37	-43	-61	-21	-11	253	40	-30	-43	-58
Purchases	21	18	7	0	0	0	270	60	0	0	0
Repurchases	62	55	50	61	21	11	17	20	30	43	58
General government	-14	1	229	51	162	173	49	-27	-30	-37	-58
Purchases	13	28	254	81	172	218	135	30	0	0	0
Repurchases	27	26	25	30	10	44	86	57	30	37	58
Exceptional financing	65	24	161	77	211	341	210	0	0	0	1
European Commission	0	22	83	53	37	98	104	0	0	0	0
World Bank	60	1	54	0	150	100	40	0	0	0	0
Other official bilateral donors	5	0	24	24	24	144	66	0	0	0	1
				(Percent of GDP, unless otherwise indicated)							
Memorandum Items:				118	572	240	426	84	184	206	274
Gross official reserves (millions of U.S. dollars) 2/	2,995	3,060	3,784	3,902	4,474	4,714	5,140	5,224	5,407	5,613	5,887
Months of imports of good and services	5.4	6.2	5.7	4.6	5.2	5.3	5.4	5.2	4.9	4.7	4.7
Percent of short term debt and CA deficit	83.1	96.7	91.5	72.3	86.9	84.4	87.0	80.8	74.7	79.1	83.7
Pct of short-term debt at remaining maturity	120.4	135.2	155.3	134.4	140.0	126.4	126.7	113.9	104.9	114.8	119.3
Pct of the IMF composite measure (floating) 3/	159.3	168.0	189.1	175.6	180.1	169.0	169.3	159.4	150.8	149.9	149.8
Gross official reserves, incl. RSF (millions of U.S. dollars)	2,995	3,060	3,784	3,902	4,474	4,714	5,239	5,294	5,407	5,613	5,887
Current account balance	-10.8	-9.5	-7.8	-12.4	-17.2	-12.2	-11.4	-10.4	-9.7	-9.6	-9.5
Goods and services trade balance	-26.1	-25.1	-23.4	-27.1	-29.4	-27.4	-26.1	-24.2	-23.2	-22.6	-25.2
Export of goods and services	30.7	31.2	27.9	30.7	41.1	37.3	39.9	39.5	39.3	38.6	39.0
Import of goods and services	56.8	56.3	51.3	57.8	70.6	64.7	66.0	63.8	62.5	61.1	64.3
Foreign direct investment balance	2.3	4.0	1.3	2.7	3.7	2.2	2.3	2.3	2.5	2.4	2.5
				(Percent change of amounts in U.S.dollars, unless otherwise indicated)							
Exports of goods	5.8	7.2	-8.2	31.8	44.5	-10.4	8.0	5.0	5.2	5.2	6.5
Exports of services	17.9	4.5	-17.2	28.0	39.4	16.5	10.0	12.5	12.5	12.5	12.5
Imports of goods	19.1	3.0	-7.2	34.0	31.7	-1.1	3.8	5.4	6.9	8.2	8.0
Imports of services	18.2	5.1	-25.4	32.1	17.9	13.9	4.0	7.8	7.8	10.0	10.0
Remittances and compensation	14.8	14.7	14.5	13.3	10.4	11.2	11.9	11.7	11.6	11.3	11.3
Debt service (pct of exports of goods and services)	14.7	13.4	15.8	11.9	8.8	10.9	12.2	12.4	13.2	12.3	8.1

Sources: National Bank of Moldova; and IMF staff estimates.

1/ Balance of Payments (BOP) classification is revised in line with the Sixth Balance of Payments Manual (BPM6).

2/ Includes SDR allocation in 2021 (about US$236 million). Includes revaluation changes, which were not captured by changes of gross official reserves in the BOP. Excludes RSF disbursements.

3/ The IMF composite measures are calculated as a weighted sum of short-term debt, other portfolio liabilities, broad money, and exports in percent of GDP. Official reserves are recommended to be in the range of 100-150 percent.

Table 3b. Moldova: Balance of Payments, 2018–2028 1/

(Percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-10.8	-9.5	-7.8	-12.4	-17.2	-12.2	-11.4	-10.4	-9.7	-9.6	-9.5
Merchandise trade balance	-29.3	-28.2	-26.8	-30.6	-35.7	-34.2	-34.0	-32.9	-32.5	-32.2	-32.4
Exports	17.6	18.0	16.9	18.7	25.4	20.7	22.0	21.1	20.3	19.3	19.0
Imports	46.8	46.3	43.7	49.3	61.1	55.0	56.0	53.9	52.8	51.5	51.4
Services balance	3.2	3.1	3.5	3.5	6.2	6.8	8.0	8.6	9.3	9.7	10.3
Exports of services	13.1	13.2	11.1	11.9	15.7	16.6	17.9	18.4	19.0	19.3	20.0
Imports of services	10.0	10.0	7.6	8.5	9.4	9.8	10.0	9.8	9.7	9.6	9.8
Income balance	4.8	5.2	3.4	1.9	0.4	2.7	3.6	3.5	3.5	3.3	3.3
Compensation of employees	7.6	7.5	6.3	5.7	5.0	5.3	5.6	5.5	5.5	5.3	5.3
Income on direct and portfolio investment	-2.8	-2.2	-2.9	-3.8	-4.6	-2.6	-2.0	-2.0	-2.0	-2.0	-2.0
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current transfer balance	10.6	10.3	12.2	12.8	11.9	12.5	11.1	10.3	10.0	9.6	9.4
Remittances	7.2	7.3	8.1	7.6	5.4	5.9	6.3	6.2	6.1	6.0	6.0
Budget transfers	0.9	1.8	0.8	0.8	0.8	2.4	0.6	0.2	0.2	0.2	0.2
Other transfers	2.4	1.3	3.2	4.4	5.6	4.1	4.2	3.9	3.7	3.4	3.3
Capital and Financial Account Balance	-12.4	-10.1	-10.7	-10.5	-16.0	-10.5	-10.9	-10.5	-10.7	-10.8	-11.0
Capital account balance	-0.3	-0.5	-0.6	-0.4	0.1	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
Financial account balance	-12.7	-10.6	-11.3	-10.9	-15.9	-10.8	-11.1	-10.8	-11.0	-11.0	-11.2
Foreign direct investment, net (inflows: "-")	-2.3	-4.0	-1.3	-2.7	-3.7	-2.2	-2.3	-2.3	-2.5	-2.4	-2.5
Portfolio investment and derivatives, net	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-10.4	-6.5	-10.0	-8.2	-12.2	-8.6	-8.8	-8.6	-8.5	-8.6	-8.7
Loans	-1.0	-1.0	-1.8	-1.1	-1.1	-2.0	-1.0	0.5	0.8	0.7	0.2
General government, net	0.1	0.0	-0.9	-0.5	-0.2	-1.7	-0.2	1.2	1.5	1.3	0.8
Private sector, net	-1.1	-1.1	-1.0	-0.6	-0.9	-0.3	-0.8	-0.7	-0.7	-0.6	-0.6
Other capital flows, net	-9.4	-5.5	-8.2	-7.1	-11.1	-6.5	-7.9	-9.1	-9.3	-9.3	-8.9
Errors and omissions	0.4	0.2	0.5	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	2.0	0.8	3.5	-1.7	-1.0	-1.6	-0.5	0.2	1.0	1.1	1.5
Financing	-2.0	-0.8	-3.5	1.7	1.0	1.6	0.5	-0.2	-1.0	-1.1	-1.5
Gross international reserves (increase: "+")	2.1	2.4	3.3	1.5	4.4	1.5	2.6	0.5	0.9	1.0	1.2
Use of Fund credit, net	-0.5	-0.3	1.6	-0.1	1.0	1.0	1.9	0.1	-0.3	-0.4	-0.5
Monetary authorities	-0.4	-0.3	-0.4	-0.4	-0.1	-0.1	1.6	0.2	-0.2	-0.2	-0.2
Purchases	0.2	0.2	0.1	0.0	0.0	0.0	1.7	0.3	0.0	0.0	0.0
Repurchases	0.5	0.5	0.4	0.4	0.1	0.1	0.1	0.1	0.2	0.2	0.2
General government	-0.1	0.0	2.0	0.4	1.1	1.1	0.3	-0.1	-0.2	-0.2	-0.2
Purchases	0.1	0.2	2.2	0.6	1.2	1.4	0.8	0.2	0.0	0.0	0.0
Repurchases	0.2	0.2	0.2	0.2	0.1	0.3	0.5	0.3	0.2	0.2	0.2
Exceptional financing	0.6	0.2	1.4	0.6	1.5	2.1	1.3	0.0	0.0	0.0	0.0
o/w											
European Commission	0.0	0.2	0.7	0.4	0.3	0.6	0.6	0.0	0.0	0.0	0.0
World Bank	0.5	0.0	0.5	0.0	1.0	0.6	0.2	0.0	0.0	0.0	0.0
Other official bilateral donors	0.0	0.0	0.2	0.2	0.2	0.9	0.4	0.0	0.0	0.0	0.0
Memorandum Items:											
Gross official reserves (millions of U.S. dollars) 2/	2,995	3,060	3,784	3,902	4,474	4,714	5,140	5,224	5,407	5,613	5,887
Months of imports of good and services	5.4	6.2	5.7	4.6	5.2	5.3	5.4	5.2	4.9	4.7	4.7
Percent of short term debt and CA deficit	83.1	96.7	91.5	72.3	86.9	84.4	87.0	80.8	74.7	79.1	83.7
Pct of short-term debt at remaining maturity	120.4	135.2	155.3	134.4	140.0	126.4	126.7	113.9	104.9	114.8	119.3
Pct of the IMF composite measure (floating) 3/	159.3	168.0	189.1	175.6	180.1	169.0	169.3	159.4	150.8	149.9	149.8
Gross official reserves, incl. RSF (millions of U.S. dollars) 2/	2,995	3,060	3,784	3,902	4,474	4,714	5,239	5,294	5,407	5,613	5,887
Current account balance	-10.8	-9.5	-7.8	-12.4	-17.2	-12.2	-11.4	-10.4	-9.7	-9.6	-9.5
Goods and services trade balance	-26.1	-25.1	-23.4	-27.1	-29.4	-27.4	-26.1	-24.2	-23.2	-22.6	-25.2
Export of goods and services	30.7	31.2	27.9	30.7	41.1	37.3	39.9	39.5	39.3	38.6	39.0
Import of goods and services	56.8	56.3	51.3	57.8	70.6	64.7	66.0	63.8	62.5	61.1	64.3
Foreign direct investment balance	2.3	4.0	1.3	2.7	3.7	2.2	2.3	2.3	2.5	2.4	2.5
	(Percent change of amounts in U.S.dollars, unless otherwise indicated)										
Exports of goods	5.8	7.2	-8.2	31.8	44.5	-10.4	8.0	5.0	5.2	5.2	6.5
Exports of services	17.9	4.5	-17.2	28.0	39.4	16.5	10.0	12.5	12.5	12.5	12.5
Imports of goods	19.1	3.0	-7.2	34.0	31.7	-1.1	3.8	5.4	6.9	8.2	8.0
Imports of services	18.2	5.1	-25.4	32.1	17.9	13.9	4.0	7.8	7.8	10.0	10.0
Remittances and compensation	14.8	14.7	14.5	13.3	10.4	11.2	11.9	11.7	11.6	11.3	11.3
Remittances	11.3	4.5	10.3	10.6	-23.9	20.0	8.0	8.0	8.0	8.0	8.0
Compensation of employees	12.1	2.8	-16.8	7.8	-7.5	16.0	8.0	8.0	8.0	8.0	8.0
Debt service (pct of exports of goods and services)	14.7	13.4	15.8	11.9	8.8	10.9	12.2	12.4	13.2	12.3	8.1

Sources: National Bank of Moldova; and IMF staff estimates.

1/ Balance of Payments (BOP) classification is revised in line with the Sixth Balance of Payments Manual (BPM6).

2/ Includes SDR allocation in 2021 (about US$236 million). Includes revaluation changes, which were not captured by changes of gross official reserves in the BOP. Excludes RSF disbursements.

3/ The IMF composite measures are calculated as a weighted sum of short-term debt, other portfolio liabilities, broad money, and exports in percent of GDP. Official reserves are recommended to be in the range of 100-150 percent.

Table 4a. Moldova: General Government Budget, 2018–2028

(Millions of Moldovan lei, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and Grants	57,996	62,949	62,655	77,378	91,481	101,150	105,859	123,523	140,817	155,822	172,971
Revenues	57,609	61,347	62,006	74,931	86,966	94,186	104,441	121,758	138,862	153,765	170,799
Tax revenues	54,816	58,458	58,987	71,233	82,447	89,816	99,654	116,519	133,115	147,458	163,853
Personal income	3,982	3,970	4,166	5,134	5,997	7,047	7,862	8,693	9,629	10,667	11,853
Corporate income	5,357	5,365	5,123	6,009	8,729	8,357	9,575	10,587	14,659	16,238	18,044
Property tax	564	580	582	756	755	775	808	893	990	1,096	1,218
VAT	18,616	20,183	19,775	25,509	29,057	30,242	33,896	41,590	46,908	51,962	57,740
Excises	5,683	6,222	6,469	7,608	8,013	9,325	10,305	13,707	15,458	17,123	19,027
Foreign trade	1,666	1,798	1,739	2,253	2,732	2,900	2,736	3,025	3,351	3,712	4,124
Other	1,793	1,935	1,898	2,125	2,242	2,190	2,595	2,869	3,178	3,521	3,912
Social Fund contributions	13,038	13,636	14,296	16,224	18,573	21,495	23,645	26,052	28,858	31,968	35,522
Health Fund contributions	4,118	4,768	4,940	5,615	6,350	7,485	8,234	9,104	10,084	11,171	12,413
Non-tax revenues	2,793	2,889	3,018	3,698	4,519	4,370	4,787	5,239	5,747	6,307	6,946
NBM profit transfers	0	0	218	407	147	0	0	0	0	0	0
Grants	387	1,603	650	2,447	4,515	6,964	1,418	1,765	1,955	2,057	2,172
Budget support	0	1,235	316	2,014	3,882	6,004	588	1,059	1,173	1,234	1,303
Project	387	368	334	434	633	960	830	706	782	823	869
Expenditure and Net Lending	59,609	65,972	73,275	83,714	100,374	116,661	121,649	137,891	155,057	170,205	186,333
Current expenditure	53,597	58,975	65,687	76,151	89,921	107,047	110,526	124,647	139,339	151,634	164,748
Wages	13,733	15,649	17,214	18,776	21,400	25,514	27,698	31,003	34,343	38,044	42,142
Goods and services	11,209	12,080	13,276	16,683	18,601	20,199	21,126	23,403	25,884	28,672	31,760
Interest payments	1,526	1,641	1,707	1,941	2,736	5,622	5,484	5,306	6,306	7,486	8,960
Domestic	1,129	1,213	1,333	1,550	2,163	4,030	3,932	3,779	4,507	5,804	6,393
Foreign	397	428	374	391	574	1,591	1,553	1,528	1,799	1,682	2,567
Transfers	23,411	24,616	28,848	33,467	43,777	49,517	52,461	57,139	63,274	69,700	76,851
Transfers to economy 1/	3,462	2,316	3,840	5,280	6,033	5,015	5,498	6,079	6,733	7,392	8,188
Transfers to households	19,949	22,301	25,008	28,187	37,744	44,501	46,963	51,060	56,541	62,308	68,664
Other current expenditure	3,718	4,989	4,642	5,285	3,406	6,195	3,756	7,795	9,531	7,732	5,035
Capital expenditure	6,012	6,997	7,588	7,563	10,454	9,614	11,123	13,244	15,718	18,571	21,585
One-off revenue and expenditure items 2/	0	0	0	0	-5083	0	0	0	0	0	0
Overall Balance (incl. one-off items)	-1,613	-3,023	-10,620	-6,335	-13,976	-15,511	-15,790	-14,367	-14,240	-14,382	-13,362
Overall balance (excl. one-off items)	-1,613	-3,023	-10,620	-6,335	-8,893	-15,511	-15,790	-14,367	-14,240	-14,382	-13,362
Primary balance (excl. one-off items)	-293	-1,595	-9,469	-4,843	-6,300	-13,717	-12,010	-10,721	-10,846	-10,495	-9,034
Financing (excl. one-off items)	380	2,125	3,865	-285	1,370	3,288	6,819	12,191	14,240	14,382	13,362
Budget financing	1,270	2,902	2,250	-4,687	-5,230	1,368	5,959	13,945	15,393	16,091	16,224
Central government	1,933	2,984	1,833	-4,413	-4,483	1,319	5,792	13,945	15,393	16,091	16,224
Net domestic 3/	1,094	1,701	1,856	-4,688	-4,483	-1,731	3,318	12,164	15,093	15,791	15,924
Net foreign (excl. project loans, incl. RSF)	140	85	151	138	0	1,525	2,275	1,632	150	150	150
Privatization	140	85	151	138	0	1,525	200	150	150	150	150
Others	559	1,112	-325	0	0	0	0	0	0	0	0
Local governments	-136	211	0	-227	-20	49	167	0	0	0	0
Privatization	1	2	0	0	0	0	0	0	0	0	0
Social Fund	-364	-146	0	-60	-51	0	0	0	0	0	0
Health Fund	-163	-147	417	12	-676	0	0	0	0	0	0
Net project loans	1,538	1,613	3,047	2,855	3,111	6,225	5,525	3,029	3,356	3,340	3,322
Of which: Onlending (through commercial banks)	-105	-113	-649	-651	-31	-287	-120	-133	-147	-163	-181
Financing Gap	1,233	898	6,754	6,620	7,523	12,223	8,971	2,177	0	0	0
World Bank	1,012	24	930	0	2,841	1,950	840	0	0	0	0
IMF	221	483	4,393	1,439	3,262	4,246	2,832	637	0	0	0
Others 4/	0	391	1,431	5,181	1,420	6,027	5,299	1,540	0	0	0
Financing for one-off items											
Government securities issued	0	0	0	0	0	0	0	0	0	0	0
					(Millions of Moldovan lei)						
Memorandum Items:											
Public and publicly guaranteed debt	57,550	57,989	71,072	83,665	100,315	109,339	130,522	142,236	154,370	162,220	169,648

Sources: Moldovan authorities; and IMF staff estimates and projections.

1/ As of 2016, capital transfers are excluded from transfers to economy and recorded under capital expenditure.

2/ Includes banking sector resolution costs in 2016, and recapitalization of Energocom in 2022.

3/ Net domestic financing in 2024 and 2025 is lower than what it would have been without RSF disbursements

4/ Includes SDR allocation in 2021 (about US$236 million).

Table 4b. Moldova: General Government Budget, 2018–2028
(Percent of GDP, unless otherwise stated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and Grants	30.7	30.5	31.4	32.0	33.2	32.4	31.0	32.7	33.6	33.6	33.7
Revenues	30.5	29.7	31.0	31.0	31.6	30.2	30.5	32.2	33.2	33.1	33.2
Tax revenues	29.0	28.3	29.5	29.4	29.9	28.8	29.1	30.8	31.8	31.8	31.9
Personal income	2.1	1.9	2.1	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Corporate income	2.8	2.6	2.6	2.5	3.2	2.7	2.8	2.8	3.5	3.5	3.5
Property tax	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
VAT	9.8	9.8	9.9	10.5	10.5	9.7	9.9	11.0	11.2	11.2	11.2
Excises	3.0	3.0	3.2	3.1	2.9	3.0	3.0	3.6	3.7	3.7	3.7
Foreign trade	0.9	0.9	0.9	0.9	1.0	0.9	0.8	0.8	0.8	0.8	0.8
Other	0.9	0.9	1.0	0.9	0.8	0.7	0.8	0.8	0.8	0.8	0.8
Social Fund contributions	6.9	6.6	7.2	6.7	6.7	6.9	6.9	6.9	6.9	6.9	6.9
Health Fund contributions	2.2	2.3	2.5	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.4
Non-tax revenues	1.5	1.4	1.5	1.5	1.6	1.4	1.4	1.4	1.4	1.4	1.4
NBM profit transfers	0.0	0.0	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.2	0.8	0.3	1.0	1.6	2.2	0.4	0.5	0.5	0.4	0.4
Budget support	0.0	0.6	0.2	0.8	1.4	1.9	0.2	0.3	0.3	0.3	0.3
Project	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Expenditure and Net Lending	31.5	32.0	36.7	34.6	36.4	37.4	35.6	36.5	37.0	36.7	36.3
Current expenditure	28.3	28.6	32.9	31.5	32.6	34.3	32.3	33.0	33.3	32.7	32.1
Wages	7.3	7.6	8.6	7.8	7.8	8.2	8.1	8.2	8.2	8.2	8.2
Goods and services	5.9	5.9	6.6	6.9	6.8	6.5	6.2	6.2	6.2	6.2	6.2
Interest payments	0.8	0.8	0.9	0.8	1.0	1.8	1.6	1.4	1.5	1.6	1.7
Domestic	0.6	0.6	0.7	0.6	0.8	1.3	1.1	1.0	1.1	1.3	1.2
Foreign	0.2	0.2	0.2	0.2	0.2	0.5	0.5	0.4	0.4	0.4	0.5
Transfers	12.4	11.9	14.4	13.8	15.9	15.9	15.3	15.1	15.1	15.0	15.0
Transfers to economy 1/	1.8	1.1	1.9	2.2	2.2	1.6	1.6	1.6	1.6	1.6	1.6
Transfers to households	10.6	10.8	12.5	11.6	13.7	14.3	13.7	13.5	13.5	13.4	13.4
Other current expenditure	2.0	2.4	2.3	2.2	1.2	2.0	1.1	2.1	2.3	1.7	1.0
Capital expenditure	3.2	3.4	3.8	3.1	3.8	3.1	3.3	3.5	3.8	4.0	4.2
One-off revenue and expenditure items 2/	0.0	0.0	0.0	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (incl. one-off items)	-0.9	-1.5	-5.3	-2.6	-5.1	-5.0	-4.6	-3.8	-3.4	-3.1	-2.6
Overall balance (excl. one-off items)	-0.9	-1.5	-5.3	-2.6	-3.2	-5.0	-4.6	-3.8	-3.4	-3.1	-2.6
Primary balance (excl. one-off items)	-0.2	-0.8	-4.7	-2.0	-2.3	-4.4	-3.5	-2.8	-2.6	-2.3	-1.8
Financing (excl. one-off items)	0.2	1.0	1.9	-0.1	0.5	1.1	2.0	3.2	3.4	3.1	2.6
Budget financing	0.7	1.4	1.1	-1.9	-1.9	0.4	1.7	3.7	3.7	3.5	3.2
Central government	1.0	1.4	0.9	-1.8	-1.6	0.4	1.7	3.7	3.7	3.5	3.2
Net domestic 3/	0.6	0.8	0.9	-1.9	-1.6	-0.6	1.0	3.2	3.6	3.4	3.1
Net foreign (excl. project loans)	0.1	0.0	0.1	0.1	0.0	0.5	0.7	0.4	0.0	0.0	0.0
Privatization	0.1	0.0	0.1	0.1	0.0	0.5	0.1	0.0	0.0	0.0	0.0
Others	0.3	0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	-0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Fund	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health Fund	-0.1	-0.1	0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net project loans	0.8	0.8	1.5	1.2	1.1	2.0	1.6	0.8	0.8	0.7	0.6
Of which: Onlending (through commercial banks)	-0.1	-0.1	-0.3	-0.3	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.7	0.4	3.4	2.7	2.7	3.9	2.6	0.6	0.0	0.0	0.0
World Bank	0.5	0.0	0.5	0.0	1.0	0.6	0.2	0.0	0.0	0.0	0.0
IMF	0.1	0.2	2.2	0.6	1.2	1.4	0.8	0.2	0.0	0.0	0.0
Others 4/	0.0	0.2	0.7	2.1	0.5	1.9	1.5	0.4	0.0	0.0	0.0
Financing for one-off items											
Government securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Public and publicly guaranteed debt	30.4	28.1	35.6	34.6	36.4	37.1	38.2	37.6	36.9	35.0	33.0

Sources: Moldovan authorities; and IMF staff estimates and projections.

1/ As of 2016, capital transfers are excluded from transfers to economy and recorded under capital expenditure.
2/ Includes banking sector resolution costs in 2016, and recapitalization of Energocom in 2022.
3/ Net domestic financing in 2024 and 2025 is lower than what it would have been without RSF disbursements
4/ Includes SDR allocation in 2021 (about US$236 million).

Table 5. Moldova: Accounts of the National Bank of Moldova and Depository Corporations Survey, 2017–2023

(Millions of Moldovan lei, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023
							Proj.
National Bank of Moldova							
Net foreign assets 1/	42,153	45,700	47,526	62,701	67,592	84,470	92,727
NFA (convertible)	43,045	46,855	48,513	62,700	67,598	84,483	92,719
Gross reserves	47,936	51,345	52,654	65,132	69,240	85,716	93,827
Reserve liabilities	4,891	4,490	4,141	2,433	1,642	1,233	1,108
Net domestic assets	-5,156	-2,143	-675	-7,062	-10,044	-9,491	-10,410
Net claims on general government	7,964	7,956	9,347	4,758	192	5,503	-95
Credit to banks	-9,217	-6,299	-5,403	-6,383	-3,704	-6,617	-4,111
Other items (net)	-3,903	-3,800	-4,619	-5,436	-6,533	-8,377	-6,204
Reserve money	36,997	43,557	46,851	55,639	57,548	74,980	82,316
Currency in circulation	19,053	21,077	22,953	29,819	31,699	34,406	37,952
Banks' reserves	17,240	22,315	23,860	25,808	25,811	40,125	44,364
Required reserves	16,266	18,656	20,518	23,010	23,247	37,726	41,539
Other reserves	974	3,659	3,342	2,798	2,564	2,399	2,826
Depository Corporations Survey							
Net foreign assets	67,877	71,780	74,503	89,983	97,303	102,741	113,766
NFA (convertible)	61,871	65,793	68,481	82,939	90,658	96,966	107,701
Of which: commercial banks	18,826	18,938	19,968	20,240	23,061	12,482	14,982
Foreign assets of commercial banks	23,237	22,641	23,342	23,788	27,094	19,536	21,142
Foreign liabilities of commercial banks	-4,411	-3,703	-3,374	-3,548	-4,034	-7,054	-6,160
NFA (non-convertible)	6,006	5,987	6,022	7,044	6,645	5,776	6,064
Net domestic assets	9,233	11,378	15,448	17,641	22,457	23,277	31,463
Net claims on general government	11,455	12,353	13,438	14,142	11,264	13,898	14,800
Credit to economy	38,101	39,656	44,207	48,744	58,996	64,272	71,556
Moldovan lei	21,657	22,779	27,302	31,139	40,713	41,688	47,667
Foreign exchange	16,445	16,878	16,905	17,605	18,283	22,583	23,889
in U.S. dollars	962	985	982	1,023	1,030	1,179	1,200
Other items (net)	-40,323	-40,631	-42,198	-45,245	-47,803	-54,893	-54,893
Broad money (M3)	77,110	83,159	89,951	107,625	119,760	126,018	145,229
Broad money (M2: excluding FCD)	53,043	58,334	63,137	75,891	83,080	90,971	107,421
Currency in circulation	19,053	21,077	22,953	29,819	31,699	34,406	37,952
Total deposits	58,003	62,081	66,997	77,806	88,062	91,612	107,277
Domestic currency deposits	33,937	37,257	40,184	46,072	51,382	56,565	69,469
Foreign currency deposits (FCD)	24,067	24,824	26,814	31,734	36,680	35,047	37,808
in U.S. dollars	1,407	1,448	1,558	1,843	2,067	1,829	1,899
Memorandum Items:							
Reserve money growth (percent change; annual)	11.2	17.7	7.6	18.8	3.4	30.3	9.8
Broad money growth (percent change; annual)	9.4	7.8	8.2	19.6	11.3	5.2	15.2
Credit to economy (percent change, annual)	-3.4	4.1	11.5	10.3	21.0	8.9	11.3
in lei	0.0	5.2	19.9	14.1	30.7	2.4	14.3
in foreign exchange ($ equivalent)	8.0	2.4	-0.2	4.1	0.7	14.4	1.8
Gross international reserves (millions of U.S. dollars)	2,803	2,995	3,060	3,784	3,902	4,474	4,714
Percent of domestic-currency broad money	90	88	83	86	83	94	87
Broad money multiplier	2.1	1.9	1.9	1.9	2.1	1.7	1.8

Sources: National Bank of Moldova; and IMF staff estimates and projections.

1/ Monetary accounts are presented at actual exchange rates, unless otherwise indicated. The SDR allocation in 2021 (about US$236 million) is reflected in gross reserve assets and in reserve liabilities.

Table 6. Moldova: Financial Soundness Indicators, 2017–2023

(End-of-period; percent, unless otherwise indicated)

	2017	2018	2019	2020	2021				2022				2023	
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Size														
Number of banks	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Total bank assets (billions of lei)	79.5	83.2	90.7	103.8	104.5	109.7	113.8	118.5	118.3	120.4	125.0	131.4	138.3	144.4
Total bank loans (percent of GDP)	22.3	18.7	19.2	22.1	19.3	20.6	22.1	23.3	24.0	24.9	24.9	25.5	22.4	22.7
Total bank assets (percent of GDP)	52.9	43.8	43.1	50.3	43.2	45.3	47.0	49.0	48.9	49.8	51.7	54.3	50.7	53.0
Capital Adequacy														
Total regulatory capital (billions of lei)	10.5	10.8	11.4	13.6	13.5	14.4	14.5	15.2	15.3	17.7	17.8	18.4	18.3	20.7
Capital adequacy ratio	31.0	26.5	24.8	27.3	26.6	26.8	26.1	25.9	25.7	29.3	29.8	29.5	29.0	31.8
Liquidity														
Liquid assets (billions of lei)	44.1	45.4	45.9	52.4	52.7	54.8	55.3	57.6	57.0	57.3	62.2	68.0	74.8	79.7
Total deposits (billions of lei)	59.9	63.5	68.4	79.6	79.1	82.9	86.5	90.1	83.9	85.8	88.0	95.0	100.2	106.6
Liquidity ratio (liquid assets in percent of total deposits)	73.7	71.6	67.1	65.8	66.6	66.0	64.0	63.9	68.0	66.8	70.8	71.6	74.7	74.8
Liquid assets in total assets	55.5	54.6	50.6	50.6	50.4	49.9	48.6	48.6	48.2	47.6	49.8	51.7	54.1	55.2
Asset Quality														
Gross loans (billions of lei)	33.5	35.5	40.4	45.6	46.6	49.9	53.4	56.4	58.1	60.2	60.2	61.6	61.1	62.0
Nonperforming loans (billions of lei)	6.2	4.4	3.4	3.4	3.4	3.7	3.6	3.5	4.1	4.1	3.9	4.0	4.0	4.4
Substandard	1.9	1.5	1.4	1.2	1.2	1.6	1.6	1.5	2.2	2.0	1.9	1.9	2.0	2.6
Doubtful	1.4	1.0	0.5	0.7	0.7	0.8	0.6	0.5	0.6	0.7	0.7	0.8	0.6	0.7
Loss	2.8	2.0	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.4	1.3	1.3	1.3	1.1
Loan loss provisions (billions of lei)	5.0	3.8	3.2	3.4	3.4	3.5	3.6	3.6	3.8	3.9	3.8	3.9	3.9	3.9
Nonperforming loans as a share of total loans	18.4	12.5	8.5	7.4	7.2	7.5	6.8	6.1	7.1	6.7	6.5	6.4	6.5	7.1
Substandard	5.7	4.2	3.5	2.7	2.6	3.2	3.0	2.7	3.7	3.4	3.2	3.0	3.3	4.2
Doubtful	4.2	2.8	1.1	1.5	1.5	1.5	1.1	0.9	1.1	1.1	1.1	1.3	1.0	1.1
Loss	8.4	5.5	3.8	3.2	3.1	2.7	2.7	2.5	2.3	2.2	2.2	2.1	2.1	1.8
Provisions to non-performing loans	80.6	86.6	93.7	101.0	101.4	94.9	99.1	104.2	91.8	96.4	96.6	98.5	97.7	89.5
Loan-loss provisioning/gross loans	14.8	10.9	8.0	7.5	7.3	7.1	6.8	6.4	6.5	6.5	6.3	6.3	6.3	6.4
Profitability														
Return on equity	11.1	11.6	14.6	8.7	9.3	9.8	12.0	12.4	16.0	15.9	18.1	16.9	22.1	19.6
Return on assets	1.8	1.9	2.5	1.5	1.6	1.6	2.0	2.0	2.7	2.7	3.1	2.9	3.8	3.4
Foreign Currency Assets and Liabilities														
Total liabilities (billions of lei)	65.9	68.9	74.3	85.9	86.3	90.9	94.9	99.1	97.9	99.2	102.6	108.1	113.5	119.5
Foreign currency liabilities (billions of lei)	29.1	29.0	31.2	36.9	36.7	38.3	40.7	42.5	42.3	42.6	42.7	44.6	43.3	44.5
Foreign currency denominated liabilities in total liabilities	44.1	42.1	42.1	42.9	42.5	42.1	42.8	42.9	43.2	42.9	41.6	41.2	38.1	37.3
Foreign currency denominated assets (billions lei)	29.3	28.9	31.2	36.9	36.5	38.2	40.8	42.4	42.2	42.7	43.0	45.2	43.8	44.4
Foreign currency denominated assets in total assests	36.8	34.7	34.4	35.5	34.9	34.8	35.8	35.8	35.7	35.5	34.4	34.4	31.7	30.8
Foreign currency deposits in total deposits	42.8	41.1	41.0	41.8	41.4	41.3	42.4	42.6	37.3	43.5	42.3	40.0	36.6	35.9
Foreign currency denominated loans in total loans	41.7	38.5	33.3	30.5	29.4	28.2	27.2	26.5	25.5	25.9	28.1	30.5	30.1	29.2

Sources: National Bank of Moldova; and IMF staff calculations.

Table 7. Moldova: External Finance Requirements and Sources, 2016–2026

(Millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
									Proj.		
Gross Financing Requirement 1/	528	795	1,545	1,511	1,296	1,943	2,913	2,430	2,397	2,436	2,515
of which: fiscal financing requirements	154	139	73	51	387	375	397	627	427	103	0
Identified Financing Sources	847	1,132	1,683	1,431	1,497	1,887	2,889	1,772	2,276	2,460	2,698
Change in Gross Reserves (increase = +)	531	531	236	60	637	206	637	240	426	84	184
Financing Gap	212	193	98	141	437	262	662	898	548	60	0
Official Financing	212	193	98	141	437	262	662	898	548	60	0
Identified program financing	177	150	65	94	182	181	490	681	278	0	0
European Commission	47	36	0	93	104	171	132	210	172	0	0
World Bank	62	5	60	1	54	0	159	221	40	0	0
Other bilateral donors	68	108	5	0	24	10	198	251	66	0	0
Fund Program (excl. RSF)	35	44	33	46	255	81	172	218	270	60	0
Memorandum items											
RSF disbursements									99	71	0

Sources: Moldovan authorities and IMF staff projections.

1/ Current account deficit plus amortization on external debt (private and public and publicly-guaranteed). The Fund support in 2020 includes the last tranche of ECF/EFF program and RCF/RFI disbursed in March and April 2020, respectively.

Table 8. Moldova: Indicators of Fund Credit, 2023–2047 1/

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund Obligations Based on Existing Credit (millions of SDRs)																									
Principal	3.6	76.5	57.0	44.5	59.5	70.4	70.4	57.4	50.3	30.1	8.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest 1/	-	26.3	22.8	21.5	20.2	18.4	16.7	15.2	13.8	12.6	11.8	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)																									
Principal	3.6	76.5	57.0	44.5	59.5	85.9	113.0	109.8	105.7	85.4	63.4	35.8	15.2	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	11.3	3.8	0.0	0.0
GRA	2.2	71.1	43.1	24.4	31.3	48.1	68.2	66.8	66.0	56.1	45.3	24.6	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	1.4	5.4	13.9	20.1	28.2	37.8	44.8	43.0	39.6	29.3	18.1	9.5	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	9.2	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	11.3	3.8	0.0	0.0
Charges and interest 1/	0.3	37.5	42.5	42.5	40.6	38.2	34.0	30.4	27.0	23.6	20.8	18.8	17.9	17.3	16.6	16.0	15.4	14.7	14.1	13.4	12.8	12.2	11.8	11.7	11.7
Total Obligations Based on Existing and Prospective Credit																									
Millions of SDRs	3.9	114.0	99.5	86.9	100.1	124.1	147.0	140.2	132.6	109.0	84.2	54.6	33.1	30.2	29.6	28.9	28.3	27.7	27.0	26.4	25.7	23.5	15.6	11.7	11.7
Millions of U.S. dollars	5.4	159.6	139.8	122.1	140.6	174.3	206.5	197.0	186.3	153.2	118.4	76.7	46.5	42.4	41.5	40.6	39.7	38.9	37.9	37.1	36.2	33.0	21.9	16.5	16.5
Percent of exports of goods and services	0.1	2.4	1.9	1.5	1.6	1.8	2.0	1.8	1.6	1.2	0.9	0.5	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0
Percent of debt service 2/	2.2	50.2	49.5	45.7	51.5	54.5	54.4	52.6	51.8	47.9	43.4	36.2	43.0	45.2	48.4	53.8	58.5	61.2	62.1	64.0	66.0	66.5	59.8	56.2	59.7
Percent of GDP	0.0	1.0	0.8	0.6	0.6	0.7	0.8	0.7	0.6	0.5	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Percent of gross international reserves	0.1	3.2	2.7	2.3	2.5	3.0	3.5	3.3	3.0	2.4	1.8	1.2	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.2
Percent of quota	2.2	66.1	57.7	50.4	58.0	71.9	85.2	81.3	76.9	63.2	48.8	31.6	19.2	17.5	17.1	16.8	16.4	16.0	15.7	15.3	14.9	13.6	9.0	6.8	6.8
Principal	2.1	44.3	33.1	25.8	34.5	49.8	65.5	63.7	61.2	49.5	36.8	20.7	8.8	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	6.6	2.2	0.0	0.0
GRA	1.3	41.2	25.0	14.1	18.2	27.9	39.5	38.7	38.3	32.5	26.3	14.3	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	0.8	3.1	8.1	11.7	16.3	21.9	26.0	24.9	23.0	17.0	10.5	5.5	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	5.3	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	6.6	2.2	0.0	0.0
Outstanding Fund Credit Based on Existing and Prospective Credit																									
Millions of SDRs	595.1	795.2	836.7	792.2	732.7	646.9	533.9	424.1	318.4	233.0	169.6	133.8	118.6	105.7	92.7	79.8	66.8	53.9	41.0	28.0	15.1	3.8	0.0	0.0	0.0
GRA	359.6	451.6	434.0	409.6	378.3	330.3	262.1	195.3	129.2	73.2	27.8	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	235.5	268.2	273.3	253.2	225.0	187.2	142.4	99.4	59.8	30.5	12.4	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	75.5	129.4	129.4	129.4	129.4	129.4	129.4	129.4	129.4	129.4	127.8	118.6	105.7	92.7	79.8	66.8	53.9	41.0	28.0	15.1	3.8	0.0	0.0	0.0
Millions of U.S. dollars	830.7	1,113.1	1,175.5	1,113.0	1,029.5	908.8	750.1	595.8	447.4	327.4	238.3	188.0	166.6	148.4	130.3	112.1	93.9	75.7	57.6	39.4	21.2	5.3	0.0	0.0	0.0
Percent of exports of goods and services	13.5	16.6	16.2	14.1	11.8	9.6	7.4	5.5	3.9	2.6	1.8	1.3	1.1	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0
Percent of debt service 2/	338.7	350.0	416.0	416.1	377.1	284.4	197.7	159.2	124.4	102.4	87.4	88.8	154.1	157.9	151.9	148.2	138.2	119.3	94.2	68.0	38.7	10.7	0.0	0.0	0.0
Percent of GDP	5.2	6.8	6.6	5.7	4.7	3.9	3.0	2.2	1.6	1.1	0.7	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	17.5	22.2	23.1	21.0	18.6	15.7	12.7	9.8	7.2	5.2	3.7	2.8	2.5	2.2	1.9	1.6	1.3	1.0	0.8	0.5	0.3	0.1	0.0	0.0	0.0
Percent of quota	345.0	461.0	485.0	459.2	424.8	375.0	309.5	245.8	184.6	135.1	98.3	77.6	68.7	61.3	53.8	46.2	38.7	31.3	23.8	16.2	8.7	2.2	0.0	0.0	0.0
GRA	208.5	261.8	251.6	237.5	219.3	191.5	151.9	113.2	74.9	42.4	16.1	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	136.5	155.4	158.4	146.8	130.5	108.5	82.6	57.6	34.7	17.7	7.2	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	43.8	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	74.1	68.7	61.3	53.8	46.2	38.7	31.3	23.8	16.2	8.7	2.2	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	159.0	124.7	-12.5	-44.5	-59.5	-85.9	-113.0	-109.8	-105.7	-85.4	-63.4	-35.8	-15.2	-12.9	-12.9	-12.9	-12.9	-12.9	-12.9	-12.9	-12.9	-11.3	-3.8	0.0	0.0
Disbursements and purchases	162.6	201.2	44.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	3.6	76.5	57.0	44.5	59.5	85.9	113.0	109.8	105.7	85.4	63.4	35.8	15.2	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	11.3	3.8	0.0	0.0
Memorandum Items:																									
Exports of goods and services (millions of U.S. dollars)	6,164	6,710	7,264	7,881	8,730	9,451	10,117	10,829	11,591	12,408	13,281	14,216	15,217	16,289	17,436	18,663	19,977	21,384	22,890	24,501	26,216	28,052	30,015	32,116	34,364
Debt service (millions of U.S. dollars) 2/	245.3	318.1	282.5	267.5	273.0	319.6	379.3	374.4	359.7	319.8	272.6	211.8	108.1	94.0	85.8	75.6	68.0	63.5	61.1	57.9	54.8	49.6	36.5	29.3	27.6
Nominal GDP (millions of U.S. dollars) 2/	16,000	16,346	17,935	19,590	21,700	23,493	25,147	26,917	28,813	30,841	33,013	35,337	37,825	40,489	43,339	46,391	49,657	53,154	56,896	60,902	65,166	69,727	74,608	79,831	85,419
Gross International Reserves (millions of U.S. dollars)	4,760	5,003	5,095	5,309	5,528	5,792	5,926	6,061	6,196	6,332	6,468	6,606	6,744	6,882	7,019	7,157	7,295	7,433	7,571	7,709	7,847	7,985	8,123	8,261	8,399
Average exchange rate: SDR per U.S. dollars	0.72	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71
Quota (millions of SDRs)	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5

Sources: IMF staff estimates and projections.

1/ Assume repurchases are made on obligations schedule. Moldova belongs to the RST Group B.
2/ Total debt service includes IMF repurchases and repayments.

Table 9. Moldova: Proposed Schedule of Reviews and Disbursements Under the ECF/EFF 1/

Available on or after	Amount of Disbursement/Purchase			Percent of Quota			Conditions
	Total	ECF	EFF	Total	ECF	EFF	
1. December 20, 2021	57,150,000	19,050,000	38,100,000	33.13%	11.04%	22.09%	Board approval of the Arrangement
2. May 11, 2022	108,150,000	64,750,000	43,400,000	62.70%	37.54%	25.16%	Board completion of ad hoc review, augmentation of access, the inflation consultation clause; and based on observance of continuous performance criteria, and prior action
3. July 14, 2022	20,650,000	9,525,000	11,125,000	11.97%	5.52%	6.45%	Observance of end-June 2022 performance criteria, continuous performance criteria, and completion of first review
4. October 14, 2022	20,650,000	9,525,000	11,125,000	11.97%	5.52%	6.45%	Observance of end-September 2022 performance criteria, continuous performance criteria, and completion of second review
5. January 24, 2023	70,950,000	19,050,000	51,900,000	41.13%	11.04%	30.09%	Observance of end-December 2022 performance criteria, continuous performance criteria, and completion of third review
6. July 24, 2023	70,950,000	19,050,000	51,900,000	41.13%	11.04%	30.09%	Observance of end-June 2023 performance criteria, continuous performance criteria, and completion of fourth review
7. January 24, 2024	100,600,000	19,050,000	81,550,000	58.32%	11.04%	47.28%	Observance of end-December 2023 performance criteria, continuous performance criteria, and completion of fifth review
8. July 24, 2024	100,600,000	19,050,000	81,550,000	58.32%	11.04%	47.28%	Observance of end-June 2024 performance criteria, continuous performance criteria, and completion of sixth review
9. January 24, 2025	22,281,250	9,518,750	12,762,500	12.92%	5.52%	7.40%	Observance of end-December 2024 performance criteria, continuous performance criteria, and completion of seventh review
10. July 24, 2025	22,281,250	9,518,750	12,762,500	12.92%	5.52%	7.40%	Observance of end-June 2025 performance criteria, continuous performance criteria, and completion of eighth review
Total	594,262,500	198,087,500	396,175,000	344.50%	114.83%	229.67%	

Source: IMF staff estimates.

1/ Moldova's quota is SDR 172.5 million.

Table 10. Moldova: Proposed Disbursements Under the RSF

Availability date	Conditions for disbursement	RSF Disbursements	
		SDR	Percent of Quota
December 6, 2023	Approval of the RSF Arrangement	-	-
March 24, 2024	Completion of RSF review conditional on reform measure 1 implementation	10,781,250	6.25%
March 24, 2024	Completion of RSF review conditional on reform measure 10 implementation	10,781,250	6.25%
March 24, 2024	Completion of RSF review conditional on reform measure 11 implementation	10,781,250	6.25%
July 24, 2024	Completion of RSF review conditional on reform measure 2 implementation	10,781,250	6.25%
July 24, 2024	Completion of RSF review conditional on reform measure 4 implementation	10,781,250	6.25%
July 24, 2024	Completion of RSF review conditional on reform measure 5 implementation	10,781,250	6.25%
July 24, 2024	Completion of RSF review conditional on reform measure 7 implementation	10,781,250	6.25%
January 24, 2025	Completion of RSF review conditional on reform measure 6 implementation	10,781,250	6.25%
January 24, 2025	Completion of RSF review conditional on reform measure 8 implementation	10,781,250	6.25%
January 24, 2025	Completion of RSF review conditional on reform measure 9 implementation	10,781,250	6.25%
July 24, 2025	Completion of RSF review conditional on reform measure 3 implementation	10,781,250	6.25%
July 24, 2025	Completion of RSF review conditional on reform measure 12 implementation	10,781,250	6.25%
Total		129,375,000	75.00%

Source: IMF Staff

Note: The RSF has a tiered interest rate structure that differentiates financing terms across groups of countries (Group A, B, and C) with lower income members benefiting from more concessional terms. Moldova is classified in Group B. For details of the RSF's tiered interest rate structure refer to the RST instrument (Attachment A, IMF Executive Board Decision No. 17231-(22/37) April 13, 2022, as amended).

Annex I. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Conjunctural Risks				
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	**Short to Medium Term**	**High** • Disruptions in trade, including international sanctions put pressure on the current account and adversely affect net exports. • Further escalation of the war leading to new waves of refugee inflows to Moldova with additional pressures on the government budget. • Increasing uncertainties and confidence effects related to the war in Ukraine lead to leu depreciation, and possibly, system-wide deposit runs. • The government could face a tightening of financing constraints due to lower rollover rates.	• Seek alternative foreign suppliers. • Secure alternative energy sources. • Implement measures to ration energy demand. • Advance structural reforms to improve competitiveness. • Ensure that the high-priority social spending is protected. • Monitor fiscal and financial sector risks closely. • Limit expenditures to the extent that available fiscal cash buffers and external financing allow. • Seek additional donor support.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	**Short term**	High **Volatile energy prices and/or interruptions in energy supply.** Sharper-than-anticipated increases in international energy prices raise the cost of energy imports. Disruptions in energy supply and/or supply shortages from the energy market keep energy prices elevated. Further spikes in energy prices would lead to a rise in the cost of energy imports. A disruption of gas supply deliveries would force Moldova to replace the diminished volumes from the spot market at a much higher cost, while a broader supply shock could trigger significant challenges to identify alternative sources. Alternative electricity supplies in the region would also become capacity constrained and/or significantly more expensive. This may necessitate temporary rationing.	• Adjust local energy tariffs. • Seek additional donor support. • Allocate additional budget resources to targeted measures that shield most vulnerable segments of the population through transparent processes. • Implement measures to ration energy demand. • Extend support to the energy regulator to ensure energy sector security. • Draw down on stored gas and make alternative supply arrangements. • Closely monitor inflation.
Social discontent. High inflation, real income loss, and spillovers from crises in other countries (including migration) worsen inequality, trigger social unrest, and give rise to financing pressures and detrimental populist policies. This exacerbates imbalances, slows growth, and triggers market repricing.	Medium	**Short to Medium Term**	Medium • Economic activity and supply disruptions are likely, if elevated social tensions and heightened insecurity ensue from more severe and prolonged job losses and hampered business activity. • Loss of confidence in the government's ability to facilitate a strong recovery may fuel political instability and aggravate economic uncertainty. Risk of policy reversals by the government to appease rising protest demands, and/or mitigate heightened instability.	• Strengthen budget outlays, especially those geared towards social spending in support of distraught households, and in support of businesses and economic recovery. • Communicate the government's policy deliverables clearly to the general population and to economic agents, to ascertain the credibility of its intentions and provide certainty, clarity, and assurances to market participants on the path of adjustment and recovery. • Enhance rule of law and strengthen anti-corruption measures, including those aimed at increasing transparency and

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
				accountability in public spending. • Avoid policy reversals.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. • **Europe:** Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections.	Medium	**Short to Medium Term**	**High** • An economic slowdown in Europe and key trading partners will weigh on Moldova, leading to a growth slowdown, further inflationary pressure, and weaker fiscal position. • Limited external financing. Further tightening of financing constraints could result in lower rollover rates.	• Secure alternative energy sources. • Implement measures to ration demand. • Advance structural reforms to improve competitiveness. • Monitor fiscal and financial sector risks closely. • Limit expenditures to the extent that available fiscal cash buffers and external financing allow. • Ensure that the high-priority social spending is protected. • Seek additional donor support.
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	Medium	**Short to Medium Term**	**High** **Inflation starts rising again** due to premature rate cuts, the NBM's credibility suffers, and inflation expectations start to de-anchor, hindering the process to achieve price stability.	• Closely monitor inflation. • Further tighten monetary policy to address second-round effects, should pressures re-emerge. • Clear communication is key to continue firmly anchor inflation expectations. • Implement support measures for the most vulnerable.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
		Structural Risks		
Deepening geoeconomic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	**Short to Medium Term**	High • Tensions in major regional trade partners and donors could disrupt Moldova's growth trajectory through trade, remittances, and financial flows, aggravate domestic and external financing constraints, and undermine energy security. • Associated changes in global trade, remittances, and capital flow patterns could affect Moldova's economy and the balance of payments.	• Diversify the economy and improve competitiveness via structural reforms. • Improve effectiveness of donor-financed projects. • Invest in new infrastructure, technology, and labor skills. • Rebuild fiscal and financial buffers. • Maintain flexible exchange rate regime
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	Medium	**Short to Medium Term**	High Potential paralysis to financial services provided by bank and non-bank financial institutions can depress economic activity and induce hefty costs and financial losses, fuel sudden stops in government, household, and cross border operations, and raise fears of financial contagion and of identity theft.	• Review and strengthen national cyber security risk management and mitigation policies, such as safety of personal, banking, and sensitive official information sources, records, and data systems. • Invest in continuous, automatic backups on secured servers. • Seek support from international and bilateral partners.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	**Short to Medium Term**	High • Adverse weather conditions would directly affect economic and labor conditions in the large agricultural sector, put pressures on domestic food prices, and reduce export flows. • Lower potential growth.	• Diversify the economy and improve competitiveness via structural reforms. • Invest in climate-related adaptative capacity. • Use monetary policy to address second round effects of commodity prices shocks.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Country-specific Risks				
Feedback loops from corporate balance sheets and spillovers from non-banks to banks, resulting from shocks to the energy and agricultural sectors as well as exposures to Russia, Ukraine and Belarus.	Medium	**Short term**	High • A significant worsening of borrower balance sheets, concentrated in the energy and agricultural sectors would lead to rising NPLs. • Spillovers from the non-bank sector could further exacerbate stress in financial institutions.	• Follow standard procedures in place, including collateral enforcement and capital and provisioning buffers to absorb losses. • Strengthen monitoring of non-banks and stand ready to take necessary preventive regulatory measures should risks increase. • Implement policies to resolve insolvent non-bank entities.
A materialization of governance weaknesses or corruption vulnerabilities could contribute to domestic populism and reform fatigue, which could jeopardize reform momentum and undermine donor funding.	High	**Short to Medium Term**	High Lower potential growth on account of continued emigration, crumbling infrastructure, and low productivity.	• Continue policy reforms and safeguard progress to date. • Resist populist demands. • Protect social spending on poor, improve targeting. • Continue growth-friendly fiscal policy. • Maintain flexible exchange rate regime. • Implement active labor market policies to encourage labor market participation. • Strengthen anticorruption efforts and rule of law to instill public confidence in government and public bodies.

Annex II. Implementation of Past IMF Policy Recommendations

2021 Article IV Recommendations	Policy Actions
Fiscal Policy	
Balance development spending with fiscal discipline and public debt sustainability by containing non-essential current spending and implementing reforms to mobilize domestic revenues, enhance spending efficiency, and strengthen fiscal governance and transparency.	Despite some increase in revenues, there have been multiple spending pressures to mitigate spillovers from Russia's war in Ukraine and to provide humanitarian support to refugees. More work needs to be done to improve budget execution and medium-term budget preparation.
Monetary and Exchange Rate Policies	
Strengthen the credibility of inflation targeting regime and improve the monetary transmission mechanism.	Monetary policy is forward-looking, data-driven and aligned with the inflation targeting strategy. Public communication of monetary policy actions and forecasts has been strengthened.
Adhere to FX intervention (FXI) strategy, review the intervention criteria underpinning the strategy with a view to gradually increase exchange rate flexibility, and communicate objectives of FXI strategy.	Necessary exchange rate adjustment is allowed and reserves are managed conservatively, limiting interventions to smoothing excessive exchange rate volatility. Intervention strategy is actively communicated to the market.
Financial Sector Policies	
Preserve financial stability, ensure accurate asset quality recognition, and smooth debt restructuring processes in the banking sector.	Ongoing. Asset quality reporting standards have been enforced as well as strong provisioning requirements.
Closely monitor the asset quality of nonbank credit organizations (NBCOs), including via on-site inspections and strengthened reporting requirements.	Regulatory and supervisory responsibilities for the NBCOs were transferred to the NBM. Work is ongoing to improve the viability, corporate governance, and risk management practices.
Structural Policies	
Strengthen governance and institutional frameworks to foster inclusive and sustainable growth: • *Fiscal governance*: strengthen revenue mobilization; improve budget quality and fiscal transparency; make spending efficient, sustainable, and growth-friendly. • *Financial governance*: safeguard NBM independence and strengthen its governance; strengthen financial sector supervision; bolster financial safety nets; bolster regulatory and supervisory frameworks for the non-bank financial sector; implement long-overdue reforms in the insurance sector; strengthen AML/CFT regime. • *Business environment and market competition*: comprehensive reforms in the SOE sector; apply cost-recovery principle to energy prices, while protecting the most vulnerable; improve	Under the ECF/EFF, key reforms have already been implemented in several areas. However, more needs to be done over the remainder of the program, including: • *Fiscal governance*: budget execution, MTBF preparation and implementation, and the unitary pay system. • *Financial governance*: further strengthen institutional autonomy and governance of the NBM, facilitate implementation of the Solvency II insurance framework, and develop the National Financial Inclusion Strategy. Strengthen mitigation of ML risks. • *Business environment and market competition*: implement triage in the SOE sector; as part of the RSF, determine the cost recovery rate for the provision of electricity and natural gas, and improve the design of energy vulnerability reduction scheme.

2021 Article IV Recommendations	Policy Actions
transparency, predictability, and good governance in the energy sector. • *Rule of law and anti-corruption*: strengthen independence, integrity and effectiveness of the judiciary; strengthen the legal framework and the effectiveness of anti-corruption institutions; leverage AML framework more effectively to counter the laundering of proceeds of corruption.	• *Rule of law and anti-corruption*: develop investigative capacity of APO, including higher operational autonomy, particularly on staffing.
Enhance the quality of economic statistics.	A multi-year strategic plan to improve production and dissemination of statistics has been developed, and the legal framework for producing statistics has been aligned with the EU standards. More needs to be done to strengthen the financial and human resources.

Annex III. External Sector Assessment

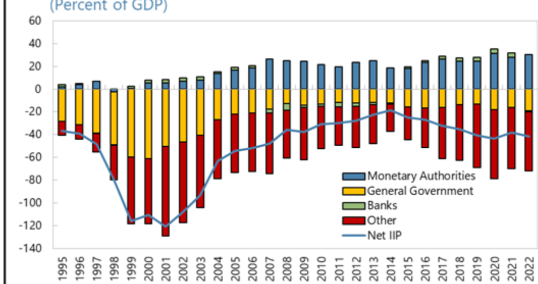
Overall Assessment: *Moldova's external position in 2022 was substantially weaker than the level implied by medium-term fundamentals and desirable polices. The current account deficit is projected to improve in 2023, reflecting an improvement in transfers, lower imports, and strong services exports. Gross official reserves are above adequate levels indicated by the IMF's reserve adequacy metric. External financing from official and development partners has remained robust.*

Potential Policy Responses: *To increase competitiveness of the economy, structural reforms should focus on strengthening governance, including in the fiscal sector and for SOEs, boosting investment in infrastructure, and improving access to finance and human capital. In addition to focusing on macro-critical governance and institutional reforms to strengthen transparency and accountability, policymakers should continue to work to boost investment in infrastructure and human capital, as well as increase the scope of digitalization and diversify and increase the share of exports away from weather-dependent agriculture-based products. These reforms also have potential to generate significant fiscal savings that could be put to more efficient use and improve the composition of government spending in the government budget. Increasing private domestic investments while also building up public savings will help to accelerate Moldova's income convergence towards the European peers and ensure sustainable and balanced growth. Reforms under the RSF will also contribute to reducing energy-related vulnerabilities. Coordination with EU partners and improvements to the legal and institutional energy frameworks will help gradually improve energy independence (see Annex VII).*

Foreign Assets and Liabilities: Position and Trajectory

Background. Moldova's net international investment position weakened in 2022 (Figure 1) to -41.5 percent of GDP, from -38.1 percent in 2021. This reversed the improvement seen in 2021 and reflected higher debt liabilities of banks and the general government. Gross assets totaled $6.5 billion, comprised heavily of official reserve assets and debt assets held by non-financial corporations, while gross liabilities totaled $12.5 billion, comprised primarily of FDI liabilities, liabilities of the general government, and liabilities of non-financial corporations. External debt stood at $9.6 billion at end-2022, up from $8.7 billion at end-2021, largely reflecting an increase in general government external borrowing, particularly from multilateral and official bilateral lenders in response to the shocks in 2022.

Figure 1. NIIP Composition by Sector
(Percent of GDP)



Sources: IMF BOP; and IMF staff calculations.

Assessment. Moldova's risk to external sustainability is contained and the risk of external debt distress is assessed to be low. Risks are reduced due to the large share of gross liabilities to direct investors and of the general government, which is predominately to multilateral and official bilateral creditors.

2022 (% GDP)	NIIP: -41.5	Gross Assets: 44.5	Debt Assets: 11.4	Gross Liab.: 86.0	Debt Liab.: 62.4

Current Account

Background. The current account deficit widened to 17.2 percent of GDP in 2022 (from a 12.4 percent deficit in 2021). This was driven by a significant increase in imports, particularly for energy, which more than doubled from 2021, and a decline in remittances, worker compensation, and income on investment. Exports of goods and services increased, partially due to the re-routing of exports due to the war in Ukraine, but not enough to offset higher imports. Personal transfers are expected to bounce back in 2023, along with lower imports and an improvement in services exports, and the current account deficit is expected to improve to 12.2 percent of GDP. It is projected to gradually improve towards 9.5 percent of GDP over the medium term, driven by a continued recovery in income balances and acceleration of services exports.

Assessment. Staff assesses the exchange rate to be overvalued based on two methodologies, suggesting that Moldova's external position at end-2022 was substantially weaker than implied by the level of medium-term fundamentals and desirable policy settings. This assessment is significantly impacted by the shocks to Moldova's economy and external position in 2022. Two models are used to assess the degree of exchange rate misalignment. In the Current Account (CA) model, the negative output gap relative to the world in 2022 would have reduced the actual CA deficit by 0.5 percentage point of GDP, while natural disasters and conflicts elsewhere have a slight impact (0.1 percentage point of GDP). As such, the adjusted current account is estimated at -17.6 percent of GDP. The current account norm—the level consistent with fundamentals and desirable policies—was estimated at -10.7 percent of GDP. This implies a model-estimated current account gap of -6.9 percent of GDP. The EBA-lite methodology identified a policy gap of 8 percent of GDP, primarily driven by a relatively tighter fiscal policy stance, lower public health expenditure, and stronger reserve accumulation in 2022.

Moldova: EBA-lite Model Results, 2022

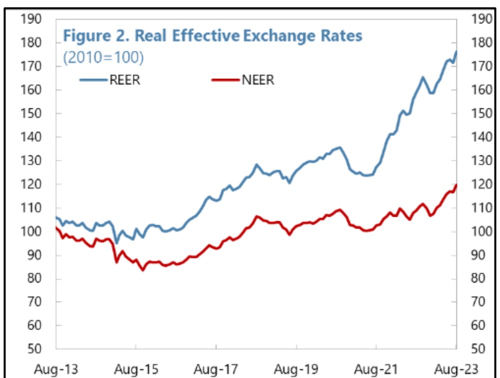
	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-17.2**	
Cyclical contributions (from model) (-)	0.5	
COVID-19 adjustors (-)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-17.6**	
CA Norm (from model) 2/	**-10.7**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-10.7**	
CA Gap	**-6.9**	**-12.9**
o/w Relative policy gap	8.0	
Elasticity	-0.3	
REER Gap (in percent)	**22.1**	**41.1**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The real exchange rate continued to strengthen in 2022, in line with the significant increase in inflation—particularly due to energy prices—stemming from the war in Ukraine. Both the real and nominal effective exchange rate briefly weakened at the end of 2022, though have strengthened again in 2023 (Figure 2). External price competitiveness has also worsened. Unit labor costs in Moldova remain below those of its more advanced neighbors, but rising nominal wages, currency appreciation, and low productivity growth have eroded competitiveness. Unit labor costs (in real terms) rose by more than in most neighboring countries from 2019 to 2022. Additionally, the stronger exchange rate has eroded modest gains in Moldova's productivity relative to the EU average since 2008/09.

Figure 2. Real Effective Exchange Rates
(2010=100)



Sources: Moldovan authorities and IMF staff calculations.

Assessment. Based on an elasticity of -0.3, the REER gap consistent with the staff assessed CA gap suggests an overvaluation of the leu of about 22 percent. The EBA-lite REER approach estimates a larger overvaluation of the leu of about 41 percent. Based on these metrics and given significant uncertainty due to spillovers from the war in Ukraine and the temporary spike in inflation, staff views the exchange rate to be overvalued in a range of 20–25 percent[1] though this overvaluation is expected to shrink in the coming years as the effects of the 2022 shocks dissipate.

[1] This compares to previous ESAs that found a 0-10 percent overvaluation (2019) and an exchange rate largely in line with fundamentals (2020).

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial and capital account balance totaled 16 percent of GDP in 2022, reflecting a large increase in private short-term flows (particularly currency and deposits) and an increase in reinvested earnings of foreign direct investors, particularly related to increased profits from large exports of vegetable products. These flows reflect some one-off factors and are expected to moderate in 2023. Official flows from multilateral and bilateral donors also increased substantially in 2022 in response to the war in Ukraine and are expected to remain robust this year.

Assessment. The capital and financial account will continue to be supported by official flows, FDI, and short-term private flows, though likely at more moderate levels than in 2022 as the effects of recent shocks dissipate. Continued multilateral and official bilateral support will be important to support external financing over the coming years.

FX Intervention and Reserves Level

Background. Gross reserves increased in 2022, boosted by significant official financing in the context of increased spillovers from the war in Ukraine, as well as an increase in the FDI balance and private short-term flows. At end-December 2022, gross international reserves stood at just under $4.5 billion, up from $3.9 billion in 2021. During 2022, NBM net foreign exchange purchases declined by about $250 million to cushion excessive fluctuations in the exchange rate due to the various shocks hitting the economy, particularly in the first half of the year, but eased in the second half and were more than offset by other inflows.

Assessment. End-December 2022 gross international reserves stood at over 5 months of imports or 180 percent of the Fund's composite reserve adequacy metric. In line with the appreciating exchange rate, net foreign exchange purchases amounted to $330 million in the first 10 months of 2023, particularly in the first half of the year, and donor support remains robust. Gross reserves are projected to remain stable at just over 5 months of imports of goods and services in 2023, and moderate slightly to about 4.7 months of imports in the medium term, while still remaining above the Fund's composite reserve adequacy metric.

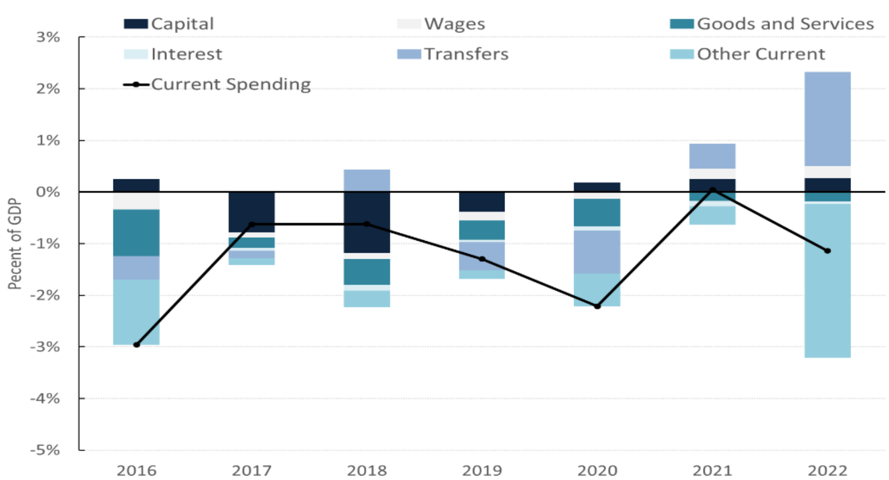
Annex IV. Budget Under-Execution[1]

1. Budget under-execution in Moldova is a recurrent issue. Every year planned current and capital expenditures differ significantly from outturns due to a combination of unrealistic projections in the approved budget and weaknesses in project planning/appraisal and implementation, both at the central and local level. The IMF's PIMA 2019 concluded that the credibility of medium-term projections (the Medium-Term Budget framework, MTBF) and budget ceilings was undermined by inaccurate cost estimates for projects. Multi-year ceilings are not binding beyond the first budget year and projections for capital expenditure do not have sectoral breakdowns. Moldova's approved budget is not a credible reflection of policy intent because what is planned and approved by the Assembly at the beginning of the year differs from what is implemented.

2. During in-year budget execution, two additional supplementary budgets are prepared for cash management purposes. These typically revise appropriations upwards and significantly change spending composition, although maintaining the original deficit. By having frequent and large mid-year reallocations, the budget execution phase has shortened in practice to less than a year, affecting the disbursement of programs and projects. This makes implementation of multi-year investment projects particularly difficult, as they require predictability in funding throughout the project cycle. Weaknesses across the whole public investment project cycle—planning, allocation, and implementation—as well as the low credibility of the MTBF, were well documented in the PIMA assessment (2019).

Figure 1. Approved National Budget Law vs. Outturns, 2016–2022

(Percent of GDP)

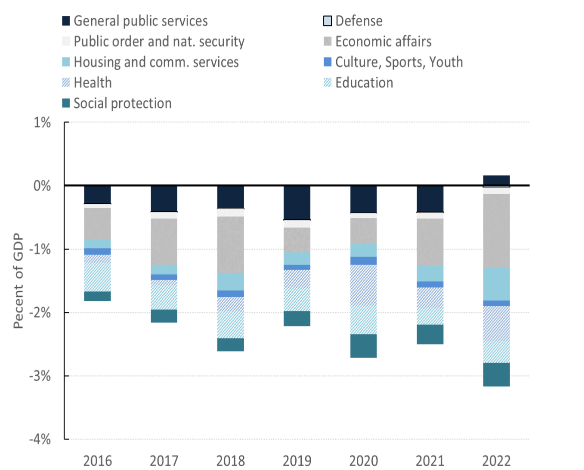


Source: IMF and Budget execution reports, Ministry of Finance.

[1] Prepared by Camilo Gomez Osorio.

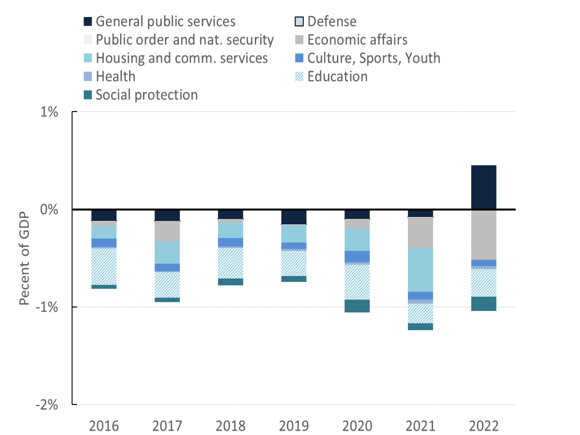
3. Current expenditures reflect larger deviations. 2022 was an exceptional year marked by variations on "other current expenditures"–representing earmarked contingencies for energy and social programs to face the multiple crises that were not used in full (Figure 1). In contrast, transfers disbursed 2 percent of GDP above the original budget, with the rolling out of a new social assistance program (EVRF) and increased allocations for existing programs (Ajutor Social and APRA) that provided direct support to households. Such reallocations were reasonable given that the war in Ukraine was not part of the planning horizon of the 2022 budget. Goods and services are consistently under-executed, as they tend to be over-budgeted by line ministries and local authorities that aim to keep a current-spending buffer. Wages and interest tend to be fully executed, as they represent obligations with known payment schedules. During the pre-COVID years (2015–19), current spending was under-executed by 1.2 percent of GDP annually on average, of which goods and services by 0.5 percent of GDP, and transfers by 0.2 percent of GDP.

Figure 2. Revised National Budget
(Central Govt) vs. Outturns (2016–2022, Percent of GDP)



Sources: IMF and Budget execution reports, Ministry of Finance

Figure 3. Revised Local Budgets vs. Outturns



Sources: IMF and Budget execution reports, Ministry of Finance

4. Execution of the capital budget has improved over time (Figure 1). Capital expenditure projections have become more realistic and tend to be reduced at the supplementary budget stage, when resources unlikely to be disbursed are reallocated to current spending priorities. While marked by limited absorptive capacity, public investment has averaged lower deviations at 0.3 percent of GDP annually and around 14 percent below approved budgets (2016–22, excluding COVID years). In 2022, execution was above the approved budget by 0.3 percent of GDP.[2] Nonetheless, capital spending decreased from 5.4 to 3.8 percent of GDP during 2015–19; outturns at an annual average

[2] In September 2022, a new Government Decision (GD) on capital investment projects was adopted increasing coverage of the PIM regulations to all projects, irrespective of funding source or sponsoring entity. The framework proposed in this regulation establishes criteria for projects to be appropriately identified, appraised, and formulated before inclusion in the budget.

of 3.5 percent of GDP are insufficient for a lower middle-income country and to meet Moldova's medium term development goals.

5. Budget under-execution at the central and local government levels is concentrated in key priority and social sectors with limited absorptive capacity. Over time, budget under-execution trends show that those priority social sectors benefitting from increased allocations at the supplementary budget stages are not fully absorbing their additional resources (Figure 2). A closer look at differences between the revised budgets and outturns by functional classification over 2016-22 show that priority sectors, such as economic affairs (agriculture, transport, etc.—0.8 percent of GDP annually), and social sectors, like education (0.4 percent of GDP), and health (0.2 percent of GDP) are consistently under-executing. While in the economic affairs and health sectors the deviations are at the central government level, in the education sector the differences are among the local authorities (Figure 3). During 2016-22, the state budget (central government) was on average 2.8 percent of GDP annually below its revised allocation (or 92 percent of budget execution), while the local budgets were 1 percent of GDP below (or 89 percent of budget execution).

6. Moldova is taking steps to strengthen its public investment management (PIM) framework that would contribute to greater execution over the medium-term. The previous legal framework (GD 1029/2013 and Ministry of Finance order 185/2015) supported technical, financial, and economic analysis for major domestically funded projects, but had limited coverage. Since most major capital projects were externally funded, it was not fully applied in practice. In 2022, the coverage of the PIM regulations was extended to all projects, irrespective of funding source or sponsoring entity (a structural benchmark of the ECF/EFF program).[3] The new regulation supports a more transparent and consistent management of public investments, including by establishing criteria for projects to be appropriately identified, appraised, and formulated prior to their inclusion in the budget. A new Order of the Ministry of Finance with the instructions to implement it is the next step in this process. Nonetheless, the other side of this coin are more realistic medium-term expenditure projections, based on budgeting practices that take into account historical execution trends (absorptive capacity) for some sectors and programs. This would contribute to bring approved budget allocations closer to their actuals.

[3] GD 684/2022 strengthened and clarified appraisal requirements for all capital projects, including foreign-financed, funds and programs.

Annex V. Legacies in the Banking Sector[1]

1. **Legacies from the 2014 bank fraud linger.** Following the $1 billion bank fraud, involving Banca de Economii, Unibank, and Banca Socială, credit to the economy contracted by 15 percent of GDP, also due to subsequently stricter lending standards. In addition, corporate governance problems were identified in a large part of the banking sector (75 percent of total banking assets) and unfit shareholders were ordered to dispose of shares. The disposal was voluntary in the case of Victoriabank, but in other cases it was forced by canceling shares and issuing and selling new ones in auctions (table). This has been disputed in the courts.

Commercial bank	Shares Canceled (percent of capital)	New Shares Sold	Market share in 2022 (assets)	Litigation
Victoriabank S.A.	Ordered disposal of shares	Jan 2018 (Banca Transilvania purchased 39.2 percent)	18 percent	N/A
Moldova-Agroindbank S.A. (MAIB)	April, July 2016 (3.53 and 37.56 percent)	Oct 2018 (HEIM Partners Ltd. acquired 41.09 percent)	32 percent	N/A
Moldindconbank S.A. (MICB)	Jan 2018 (63.89 percent)	March 2019 (Doverie-Invest S.A., purchased 63.89 and additional 13.73 percent)	19 percent	N/A
Banca de Finanţe şi Comerţ S.A.(FinComBank)	July 2019 (36.15 percent)	Jan 2021	3.5 percent	Ongoing, against the NBM
Energbank S.A.	July 2019 (52.55 percent)	Feb 2022 (IuteCredit Europe, acquired 50+ percent)	1.9 percent	Ongoing, against the bank and the NBM

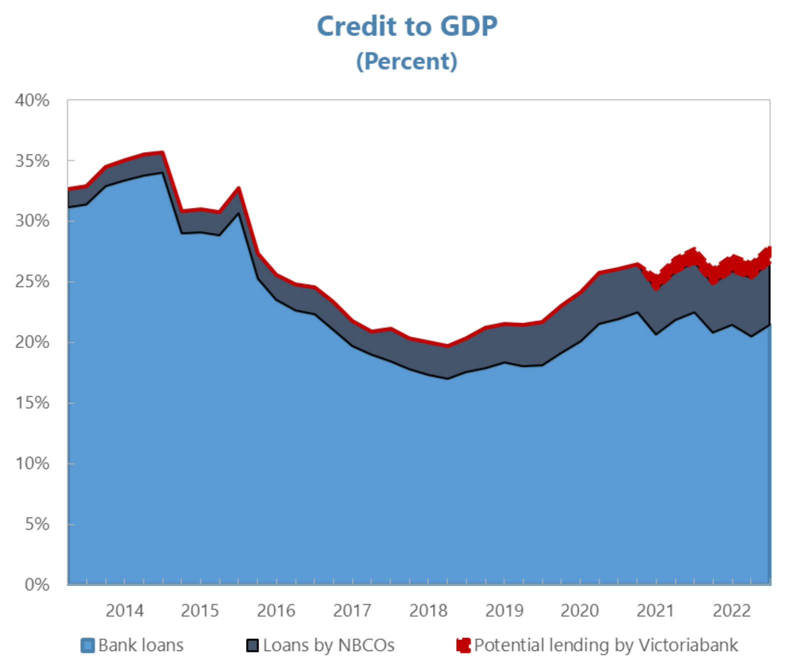
Sources: National Bank of Moldova; Moldova Stock Exchange; National Commission for Financial Markets; Commercial banks.

2. **While instrumental for the health of the banking sector, the lengthy bank clean-up continues to adversely impact intermediation and recovery of credit to pre-fraud levels:**

[1] Prepared by Jiri Podpiera.

- Externally-financed non-bank credit organizations stepped in after the 2014 fraud and provided some financing for consumer and SME lending, but they did so at much higher costs than banks (estimated interest rate of double of banks).

- Uncertainties related to litigation against Victoriabank on assets allegedly part of a money-laundering scandal in 2014 preceding the current owners are tying up liquidity that could otherwise boost credit supply; the chart below shows the potential lending by Victoriabank if its liquidity buffers were used for lending, assuming sufficient credit demand exists – by applying the average loans to assets ratio across banks in Moldova.



Sources: NBM and IMF staff.

Annex VI. The New Financial Supervisory Structure[1]

1. **One of the key recent reforms under the IMF-supported program focused on enhancing governance was to unify financial sector supervision and regulation in the NBM.** On July 1, 2023, supervisory and regulatory responsibilities, including macroprudential tools, over the insurance sector, non-bank credit organizations (NBCOs), saving banks, as well as credit registries were transferred from the NCFM to the NBM to complete the reform, including transferring a number of NCFM staff. The unification of regulation and supervision in the NBM is expected to benefit Moldova in several ways:

- *More adequate supervision and regulation of the transferred entities.* The NBM has built substantial governance and supervisory capacity in recent years, including internal audit, external relations, statistics, payment systems, AML/CFT, financial sector governance supervision, risk-based supervision, and liquidation and resolution. It is also advanced in building capacity in Solvency II implementation through a twinning project with the Financial Supervision Authority of Romania and Bank of Lithuania, which will help the sector during its upcoming transition to Solvency II.

- *Better systemic risk supervision.* Non-bank lending is macro significant, accounting for close to 18 percent of total bank and non-bank lending, and it is often directed to borrowers that face difficulties obtaining credit from banks. Some non-banks are very large, for instance, Microinvest S.R.L. is the fourth largest financial institution by assets in Moldova, and banks provide a part of the funding for non-banks. Supervision of banks and non-banks by the NBM improves effectiveness of monitoring systemic risks, including through joint exposure of banks and non-banks to clients and balance sheet linkages between banks and non-banks.

- *Assuring a level playing field and effectiveness of macroprudential policy.* Supervision of banks and non-banks by the NBM would ensure its timely access to supervisory data; credit gap analysis that includes both bank and NBCO credit; and setting appropriate macroprudential policy for both banks and NBCOs, which would limit regulatory arbitrage. In anticipation of the transfer of responsibilities to the NBM, recently-adopted regulations on responsible lending that introduced DSTI limits for banks (by NBM) and non-banks (by NCFM) have been closely aligned; unifying reporting standards for NBCOs is envisaged. When fully operational, it will level the playing field for all lenders and assure effective implementation of macroprudential policy across the financial sector.

2. **The NCFM will continue to supervise and regulate the capital market, together with a new mandate of financial consumer protection for all services.** The new mandate started on July 3, 2023, for NBCOs and insurers, and will start from January 1, 2024, for banks, payment service providers and electronic money issuers, and currency exchanges. This will increase transparency and access to consumer protection services compared to the previously fragmented system with three different agencies (the NBM, NCFM, and the Consumer Protection Agency) sharing responsibilities. The NCFM and NBM will jointly manage NCFM's legacy litigations related to NCBOs and insurers.

[1] Prepared by Jiri Podpiera.

Annex VII. Building Climate Resilience[1]

Moldova is a small economy in transition, with a low contribution to global emissions. It is highly vulnerable to climate variability and change, which bring droughts, floods, and severe storms. Increasingly erratic weather patterns have resulted in loss of life and income through rising food and energy prices, while also creating essential infrastructure needs that will require additional resources for long-term public investment. The National Development Strategy—Moldova 2030—sets out clear priorities for combating climate change by creating an efficient energy policy, along with a forward-looking climate change policy leading to a fair transition to a climate-neutral and competitive economy that will create opportunities for new jobs and sustainable growth at the same time. Moldova is receiving support from development partners to accomplish these goals. With support from the RSF, Moldova aims to strengthen and better coordinate these efforts, which will contribute to meeting its climate change-related obligations under EU cooperation, enhancing policy and sustainable finance frameworks, and building infrastructure to combat climate change.

A. Climate Change Risks and Impacts

1. Moldova is vulnerable to natural hazards, the intensity of which are likely to increase due to impacts of climate change (Box VII.1). Droughts, floods, late-spring frost, and hail cause significant socio-economic costs. Incremental effects caused by rising average temperatures and uneven distribution of precipitation throughout the year have also had negative consequences for the well-being and health of the population and the economy. One of the most severe droughts occurred in 2007, affecting more than 75 percent of the population and resulting in significant economic damage. The following year, floods from torrential rains caused $120 million (around 0.8 percent of 2022 GDP) in damage to houses, bridges and roads and flooded 7,500 hectares of agricultural land (0.4 percent of arable land). Given Moldova's location between the Black Sea and two mountain ranges, the country is also affected by hail events, which cause severe localized yield losses.[2]

2. Sectors most vulnerable to climate change are agriculture, human health, water resources, forestry, transport, and energy. Natural hazards can have a severe impact on agricultural production[3], with average annual losses from hydrometeorological hazards comprising about 3 percent of GDP.[4] In addition, natural hazards have a severe impact upon the rural population, 60 percent of the total population and highly dependent on agriculture. Hazards are likely to become more frequent and intense when temperatures increase and rainfall patterns change. Climate change also represents a serious threat to Moldova's energy sector. With higher temperatures, fluctuating rainfall, and an increasing number and severity of extreme weather events, climate impacts are decreasing the efficiency of power stations and pipelines, and compromising energy production and delivery.

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[1] Prepared by Katja Funke and Marina Marinkov.

[2] World Bank, 2019

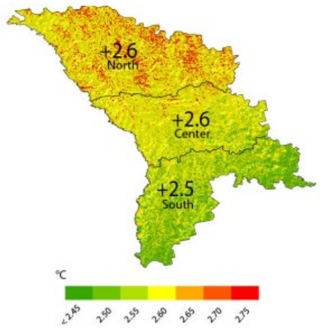
[3] Agriculture and related production amounted to around 10 percent of 2022 GDP.

[4] WB Climate Change Portal

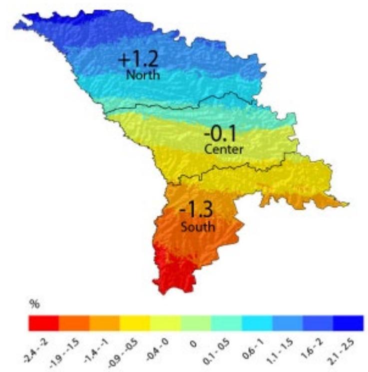
Figure 1. Climate Change Implications

Climate projections for Moldova indicate a continuous 2-3°C increase in temperatures by 2050, increases in the frequency and severity of drought, and increase in rainfall variability.

Changes in Annual Mean Temperature by 2050 (°C) 1/



Changes in Total Precipitation by 2050 (%) 1/

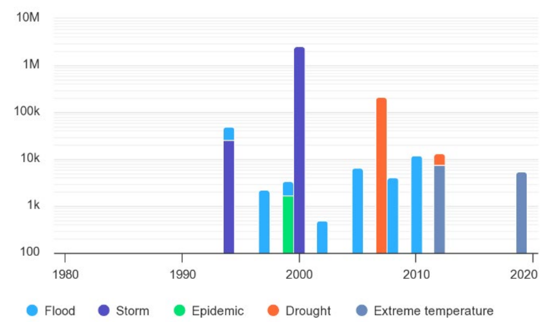


Increasingly erratic weather patterns have resulted in loss of life and socio-economic costs.

Natural Disasters, 1964–2022

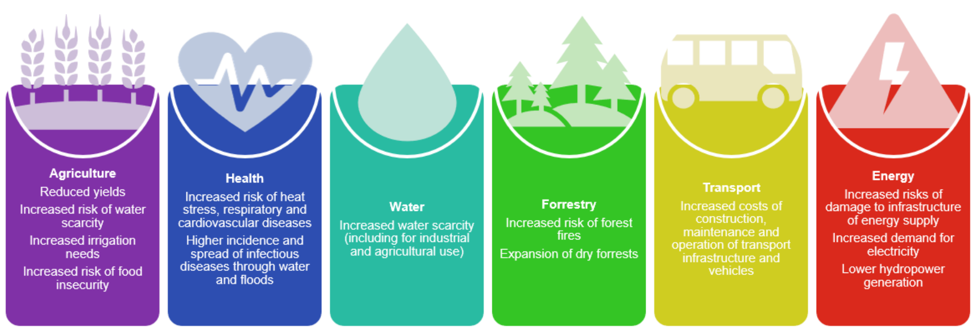
Type	Subtype	Events Count	Total Deaths	Total Affected	Total Damages ('000 USD)
Floods	Riverine	4	51	47,500	307,752
	Other	3	10	4,457	54,832
Drought		3	2	216,194	406,000
Storm		2	3	2,625,580	31,600
Epidemic		1		1,647	

Number of People Affected by Natural Disasters, 1980–2020



The most vulnerable sectors are agriculture, health, water, forestry, transport, and energy.

Main Climate Impacts in Moldova, by Sector



Sources: World Bank (2019), EM-DAT Public, World Bank Climate Change Knowledge Portal, Moldova 2030

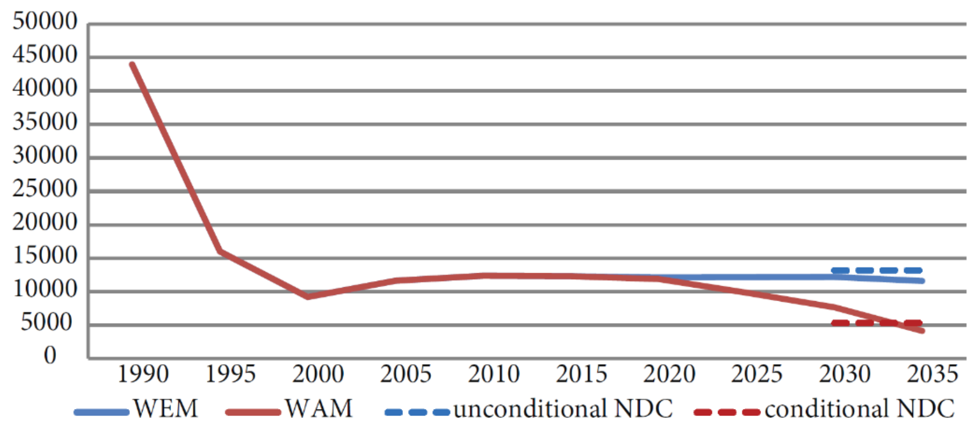
1/ The climate projections for Moldova are based on a range of recent coupled atmosphere-ocean General Circulation Models (GCMs). Such models are used as a research tool for studying and simulating the climate, and for operational purposes, including monthly, seasonal, and inter-annual climate projections. The results of six GCM experiments based on the A2 and B2 marker scenarios of the Special Report on Emissions Scenarios (SRES) for three time slices (2010–2039; 2040–2069; 2070–2099) served as a basis for downscaling. See World Bank (2019).

B. Policy Issues and Strategies

3. **Moldova is embracing the need for climate action despite its small contribution to global emissions (0.026 percent).**[5] In its updated Nationally-Determined Contribution (NDC), Moldova committed to reduce GHG emissions by 2030 to less than 70 percent of the 1990 emissions level (unconditional target). With access to international concessional financing, technology transfer, and technical cooperation, the target could be increased to a reduction of 88 percent (conditional target) (Figure VII.1). While the NDC does not include a net zero target, Moldova aims to become climate neutral by 2050, as expressed in the draft Law on Climate Action.[6]

Figure 2. Moldova: Moldova's Total Net GHG Emissions, 1990–2035

Kilotons of Carbon Dioxide Equivalent



Source: [Third Biennial Update Report of the Republic of Moldova to the UNFCCC]

Note: Total net GHG emissions projections were developed for two scenarios: (1) with existing measures scenario (WEM) and (2) with additional measures scenario (WAM). The business-as-usual scenario (BAU) is not needed due to the fact that Moldova has specified its emissions targets relative to the 1990 reference year.

4. **To achieve these objectives, the government will leverage mitigation co-benefits from adaptation actions across key economic sectors.** Over 65 percent of national net direct GHG emissions in 2019 originated from the energy sector, followed by the agriculture and waste sectors (Figure VII.2). The 2020 NDC puts total adaptation investment needs at $4.22 billion to reach a sustainable social and economic development resilient to the impact of climate change. Out of this, investments of $1.85 billion are identified as high priority through 2040 (Table VII.1). The largest adaptation challenges and investment opportunities are in agriculture, where rehabilitation and modernization of centralized irrigation systems and drainage infrastructure would make a major contribution to climate resilience. Investments in rural flood, water supply, and sanitation (WSS) infrastructure will improve water supply in the agriculture sector and for the rural population, creating resilience to the expected impact of increasing temperatures and erratic precipitation patterns caused

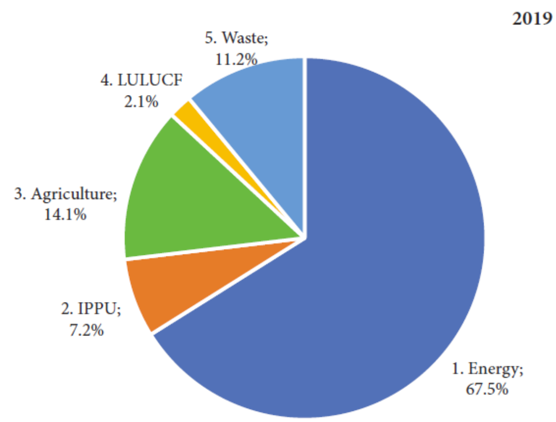
[5] This is one of the lowest per capita emissions in Europe (only Albania and Sweden have lower emissions; see WB data). The significant reduction in total GHG emissions from 1990 through 2000 corresponds to the economic downturn following the collapse of the Soviet Union and Moldova's transition to a market economy.

[6] Concept of Law on Climate Action, Article 5 on Climate Neutrality and Resilience Objectives.

by climate change.

Figure 3. Breakdown of the Republic of Moldova's Total GHG Emissions

By sectors, 2019



Source: Third Biennial Update Report of the Republic of Moldova to the UNFCCC and Updated NDC for the Republic of Moldova
Note: LULUCF = Land Use, Land-Use Change and Forestry Sector; IPPU = Industrial Processes and Product Use.

Table 1. Moldova: High Priority Investments in Moldova's Economy's Sectors through 2040

Million $

Sector	Investment	Investment period	Cost
Agriculture Water Management	Rehabilitate/modernize centralized irrigation systems	2017 to 2040	975
	Rehabilitation/modernization of drainage infrastructure in irrigated areas	2017 to 2026	120
	Institutional reforms/capacity building	2017 to 2024	140
Forestry	Ecological reconstruction of forests	2020 to 2029	91.3
	Ecological reconstruction of forest belts	2020 to 2029	4.9
Health	Heat health warning system	2017+	0.4[45]
Water Supply	Improving municipal & industrial water system efficiency by 10% reduction in loss	2017+	2.8-5.5
	Water storage in Lower Dniester (100 MCM)	2030+?	18.4
	Water storage in Reut (1 MCM)	2020	0.3
Flood Prevention	Structural measures	2020-2040	360.8
	Non-Structural measures	2020-2040	13.6
WSS	Rehabilitation of existing and construction of new WSS infrastructure	2020-2040	409 [350-439]
Disaster Response Management	Improved training facilities; Create N&S Emergency Command Centers; Improved emergency response capabilities	2020	11

Source: Third Biennial Update Report of the Republic of Moldova to the UNFCCC and Updated NDC for the Republic of Moldova
Note: LULUCF = Land Use, Land-Use Change and Forestry Sector; IPPU = Industrial Processes and Product Use.

5. **In addition to adaptation co-benefits, the government is also working towards increasing renewable energy capacity and containing energy demand.**[7] Achieving 27 percent of renewable sources in energy consumption by 2030, as part of EU-related obligations, will require investments in renewable capacity (wind, solar). With the war in Ukraine and energy crisis, the authorities have also intensified their focus on securing energy independence and supplies to accessible energy, both in terms of source and price. While it is expected that expansion of capacity will mostly be undertaken through private investment, public investment will be needed to ensure network stability and flexibility. There is also a need for investments in the district heating infrastructure, including the insulation of distribution networks and new heat-generation plants.

6. **Moldova is making progress on developing policies and investment measures to support its national climate change objectives and mobilize necessary financing.** Table VII.2 presents Moldova's climate-related policies, plans, laws, and the main stakeholder institutions. Key national and sectoral strategies have either been completed or are near completion. However, a multi-sectoral coordinating mechanism headed by high-level authorities has yet to be operationalized. Since 2014, the authorities have also advanced climate policy development through their cooperation with the EU.[8] Moldova's Disaster Risk Management (DRM) strategy is yet to be adopted. Several important milestones remain to be achieved in 2023-24, including drafting of the Law on Climate Action and

[7] See also Annex VIII on the energy sector in Moldova.

[8] EU4Climate

adoption of the Low Emission and the Climate Change Adaptation Programs. Reform Area 1 under the proposed RSF, on Adaptation and Mitigation Policy, and Disaster Risk Management, includes the following reform measures (RM): (i) adoption of the Law on Climate Action enabling low carbon development and climate change resilience and establishment of a National Commission on Climate Change (NCCC) (RM1); (ii) approval of a Disaster Risk Management Program (RM2); and (iii) development and dissemination of natural disaster risk and vulnerability maps (RM3). With Moldova gaining EU candidate status in June 2022, concrete steps will be identified towards EU integration in all sectors, including climate. Moreover, Moldova's authorities have undertaken steps to enhance mobilization of sustainable finance, including by removing key obstacles to increase financing of mitigation/transition and adaptation projects by developing partners and domestic banks (main text, ¶37). For instance, the NBM is working on developing and implementing a sustainable finance framework, starting with Moldova's sustainable finance strategy (RM11) and sustainable finance taxonomy (R12), and progressively, other guidance and regulation to manage climate risks. The NBM is also strategizing its capacity and collaboration with domestic- (RM10) and international partners, particularly in terms of climate-related data and analysis.

Table 2. Climate Change Strategies, Laws, and Institutions (concluded)

Key Strategies and Plans	Coverage
Nationally Determined Contribution (NDC)	Moldova's updated NDC is a policy document aimed at achieving more ambitious targets than in its first NDC. Moldova remains committed to the international agreement on climate change to maintain the average global temperature increase below 2°C. The country's climate change adaptation vision incorporates the concept of integrating climate adaptation into medium- and long-term development planning to foster adaptation action. It also aims to integrate climate risks into investment decision-making and business planning with the view to increase the resilience of economic sectors, land use, and ecosystems, thereby accelerating the country's transition towards low carbon and resilient development.
Low Emission Development Program (LEDP)	Moldova's new LEDP up to 2030 is aimed at achieving the GHG emission reduction targets set out in the country's updated NDC. The LEDP and the action plan for its implementation are undergoing internal consultations and are expected to be approved by Government in the second half of 2023. The LEDP identifies the critical actions for key sectors of the economy with a view to reducing GHG emissions relative to their 1990 level, emphasizing energy efficiency and developing renewable energy sources, among others. It will replace the existing (2016) LEDP.
National Climate Change Adaptation Program (NCCAP)	Moldova's new NCCAP up to 2030 sets objectives aimed at increasing the climate resilience of six priority sectors: agriculture, health, transportation, energy, water, and forestry. It is accompanied by an action plan for preventing and overcoming risks and vulnerabilities caused by climate change. The NCCAP and action plan are undergoing internal consultations and are expected to be approved by Government in the second half of 2023. It will replace the existing (2014) NCCAP.
National Development Strategy (NDS)	"European Moldova 2030" is a strategic document that outlines Moldova's poverty reduction strategy and long-term development vision. The strategy establishes ten general objectives that aim to bring Moldova closer to the EU standards, while recognizing that climate change poses risks and opportunities and that these need to be assessed as part of Moldova's development agenda. The National Development Plan (NDP) operationalizes the NDS over a three-year period. The NDP 2023–25 includes a climate change perspective.

Table 2. Climate Change Strategies, Laws, and Institutions (concluded)	
Sector Strategies	Moldova has adopted the Strategy for Agriculture and Rural Development 2023–30, and is in the process of finalizing other strategies that are aligned with the NDS and which have implications for the NDC, including: (i) the Energy Strategy 2050 (concept note) which will build on the Energy Strategy 2030; (ii) the Mobility Strategy 2023–30 (planned by the end of 2023); and (iii) the Health Strategy 2030 (draft).
Climate Change Coordinating Mechanism	The Climate Change Coordinating Mechanism was approved by Government Decision 444 in 2020 to ensure cross-sectoral coordination of all climate-related aspects, including adaptation and mitigation. The aim of the Mechanism is to foster dialogue, coordination, collaboration and coherence across sectors and to oversee reporting on the planning and implementation of climate change adaptation actions by all stakeholders.
Key Laws	**Coverage**
Law on Climate Action	A draft climate law is being developed with the support of development partners and is expected to fully transpose EU climate legislation, enabling low carbon development and climate change resilience. It will establish a mechanism to implement strategies, policies and measures designed to meet the long-term and the intermediate GHG emission reduction objectives and targets for 2030 and beyond. The climate law will also establish a framework for enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change (in compliance with Article 7 of the Paris Agreement), as well as a mechanism to implement strategies, policies and measures towards achieving the national adaptation goal.
Institutions	**Climate Related Responsibility**
National Commission on Climate Change (NCCC)	The Climate Change Coordinating Mechanism provides the legal basis for establishing the NCCC as an inter-institutional body for the purpose of coordinating and promoting the measures and actions necessary for the unitary application of the provisions of the UNFCCC and of the Paris Agreement. Despite having a legal framework, the NCCC is yet to be formed.
Line Ministries	The Ministry of Environment, as coordinator, is responsible for monitoring, reporting and verifying the actions provided for by the LEDP. The ministries of Energy, Finance, Education and Research, Infrastructure and Regional Development, Agriculture and Food Industry, and Economic Development and Digitalization are the key line ministries involved in the implementation process. Under the NCCAP, the planning and implementation of climate change adaptation measures is a shared responsibility and requires the involvement of key public authorities, institutions subordinated to them, local public authorities, the private sector and civil society (also reflected in the composition of the NCCC).
Ministry of Finance	The Ministry of Finance plays a key role in planning for Moldova's adaptation and mitigation, as all national and sectoral priorities are defined and implemented through specific budget allocations that can facilitate the integration of the climate into actions at different levels of government.
Local Governments	At the local level, most districts and localities have socio-economic development plans, in which some activities and targets could be affiliated with adaptation to climate change. Some localities have submitted action plans for sustainable energy and climate, which are supported by the Covenant of Mayors, but adaptation to climate change is not explicitly addressed.

Note: Shaded rows indicate documents that have not been adopted/approved or institutions not yet operationalized.

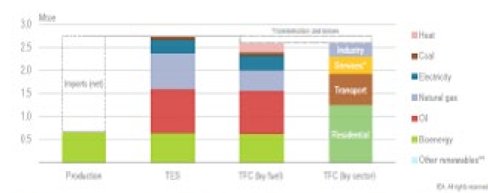
Annex VIII. Moldova's Energy Landscape and Challenges Ahead[1]

Moldova's dependence on external energy sources is among the highest in the world. The majority of the country's energy supply relies on oil, natural gas, and bioenergy, and most fossil fuels must be imported. Natural gas is the second largest source of energy after oil products, and the system of transmission and distribution of gas networks is highly monopolized and covers the whole territory of the country. Dependence on gas supplies and transit from Gazprom involves energy security risks and vulnerabilities. Electricity imports are larger than what Moldova produces domestically. Recent efforts to diversify energy supply sources are a crucial step towards reducing external dependence. The authorities are implementing reforms outlined in the IEA Roadmap to support Moldova to transform its energy sector. RSF support will reduce energy-related vulnerabilities and foster a greener, safer, and more domestically driven energy landscape. Coordination with EU partners, coupled with enhancements and improvements to legal and institutional energy frameworks, will prove essential to build infrastructure and gradually enhance energy independence.

A. Context: Heavy Reliance on External Sources for Energy Supply

1. **Moldova's energy self-sufficiency is among the lowest in the world.** Dependence on imports from a narrow range of sources is very high, and only around 25 percent of energy demand is covered by domestic production. Moldova imports 100 percent of its gas and coal, nearly all of its oil, and around 80 percent of its electricity. Domestic energy production is limited mostly to bioenergy, hydropower, and variable renewables. As a result, imports account for around 75 percent of energy consumed. Oil, gas, and bioenergy are the largest energy sources in total energy supply (TES) and total final consumption (TFC).

Energy System



Moldova's energy production is notably lower than its energy consumption (primary and final), hence the country is a net importer of energy.

* Includes commercial and public services, agriculture, forestry and unspecified consumption.
** Includes hydro, wind and solar PV; not visible at this scale.
Notes: Bunker fuels of around 0.02 Mtoe are not included in TES. Mtoe = million tonnes of oil equivalent.
Source: IEA (2022), *World Energy Statistics and Balances* (database), https://www.iea.org/data-and-statistics

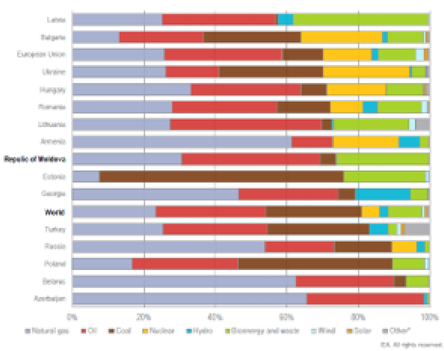
2. **Commendable efforts have been made towards diversifying supply sources and increasing security of electricity and gas supplies.** Decisive actions were taken to avoid a potential gas crisis resulting from interruption of Russian gas supply through the Ukrainian gas network at the end of 2019. By interconnecting with Romania through the Ungheni-Chisinau pipeline, Moldova created the possibility of alternative gas supply from Romania. The modification of the gas network to allow reverse flows from the Trans-Balkan system, testing of deliveries to Ukraine, and use of gas storage capacities have created additional possibilities of supply diversification and access to EU markets, including access to LNG supplies through Greece.

[1] Prepared by Agustin Roitman.

3. **In 2020, the majority of TES relied on oil, natural gas, and bioenergy.** Oil, natural gas, and bioenergy amounted together to almost 90 percent of TES (oil 34 percent, gas 28 percent, bioenergy 24 percent). Electricity imports accounted for over 10 percent of the TES, a share that is among the highest in the world. Moldova's share of fossil fuels is well below the world average.

4. **Virtually all fossil fuels consumed in Moldova – coal, oil products and natural gas – are imported, and most electricity is not generated locally.** The residential sector is the largest final consuming sector, responsible for about half of the TFC. The transport sector is the second-largest end use sector with a share of around 25 percent. Industry is small, consuming only 11 percent of final energy. Oil dominates the transport sector's energy consumption, but is also notably consumed by industry, services, and agriculture. Bioenergy is used mostly in the residential sector. Natural gas, electricity, district heat and coal cover around 40 percent of the TFC.

Total Energy Supply in Selected Countries



Source: IEA (2022), World Energy Statistics and Balance (database) http://www.iea.org/data-and-statistics

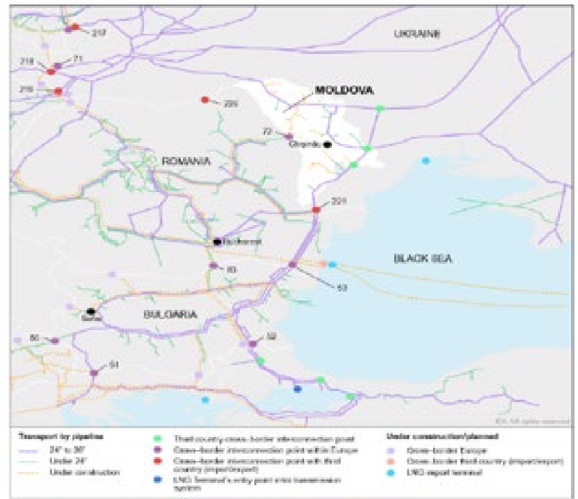
Natural Gas

5. **Natural gas, the second largest source of energy after oil products, is of crucial importance.** Natural gas plays a major role in electricity and heat generation as well as in direct supply to final consumers. With negligible domestic gas production and no significant hydrocarbon reserves, Moldova depends almost fully on imports. Having no domestic gas storage or facilities to handle LNG, Moldova depends fully on external sources for balancing seasonal variations of demand. Historically, gas has been imported solely from Russia. However, by the end of 2021, imports from Romania became available, allowing a higher degree of diversity in supply. Moldova's natural gas system is split, with the Transnistria system not controlled by Moldovan authorities and where major gas-fired power generation takes place.

6. **Moldova's gas sector is largely monopolized.** The majority of functions is performed by Moldovagaz and its subsidiaries. Shareholders of Moldovagaz are Gazprom (50 percent), the Public Property Agency of Moldova (35 percent), the administration of the Transnistrian region (13.4 percent) and others (1.2 percent). Moldovagaz owns 100 percent of the shares in the affiliated transmission and distribution companies. Moldovagaz is the main importer and supplier of natural gas (under a Public Service Obligation regime), and the Supplier of Last Resort for consumers who may lose their gas suppliers in the market. Moldovatransgaz, a subsidiary of Moldovagaz, operated most of the transmission networks and was appointed as the balancing entity in the gas market. In September 2023, Vestmoldtransgaz, owned by Romania's Transgaz and the European Bank for Reconstruction and Development, signed a five-year lease with Moldovatransgaz to become the sole operator of the gas transmission system, supporting the unbundling of the sector. The regional distribution companies—including the biggest, Chisinaugas—have been unbundled and conduct only distribution services.

7. Moldova has a well-developed gas transmission and distribution network that covers the whole country. A recent addition was the completion in August 2020 of the Ungheni-Chisinau 120 km connection line (600 mm diameter), connecting Romania and EU markets. Romania, with EU support, has built the Onesti–Gheraesti–Letcani gas pipeline and two compression stations in Onesti and Gheraesti. This allows 1.5 billion cubic meters per year (bcm/y) to be provided to Moldova. In addition to its own consumption of natural gas, Moldova has played an important role in gas transit from Russia to Romania, Bulgaria, Turkey, Greece, and North Macedonia.

Gas Transmission Network



Source: Adapted from the ENTSO-G: https://www.entsog.eu/sites/default/files/2018-09/ENTSOG_CAP_2017_A0_1189x841_FULL_064.pdf

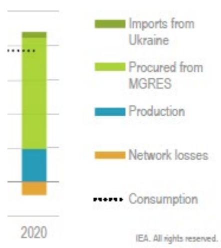
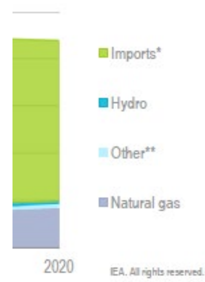
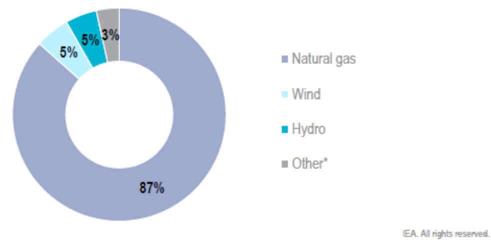
8. Dependence on gas supplies and transit from Gazprom involves energy security risks. Gazprom's ownership of the gas system creates high dependence and poses energy security risks. It also complicates the establishment of an internal competitive market and the creation of an independent regional gas policy. The TurkStream pipeline and reverse flows over the Trans-Balkan pipeline system have significantly changed gas transit and supply in the region. The countries of Southeast Europe which were previously supplied through transit via Ukraine and Moldova have switched to supply from TurkStream and reverse flow of the Trans-Balkan pipelines. Moldova, which was until recently supplied exclusively from Ukraine and Transnistria, will have access to other supply options. However, dependence on supply and ownership of Gazprom remains an issue, as the capacity of the Romania interconnection—1.5 bcm/y—is insufficient for covering winter consumption daily peaks and dependence on gas supply from Gazprom to Transnistria is not diversified.

Oil

9. Moldova is almost fully dependent on imports (more than 99 percent) of oil products. With a slight production (2010–20 average 0.16 kb/d) of crude oil, domestic refining capacity is very low, comprising a micro refinery for local oil production. Most imported oil products come from refineries in neighboring countries, with Romania being the largest supplier of diesel and gasoline, and Kazakhstan, Russia, and Romania supplying liquefied petroleum gas (LPG). Romania supplies 61 percent of imports of oil products, 95 percent of gasoline and 72 percent of diesel. Romanian oil companies transport by road at relatively low costs. Other oil suppliers include Russia (about 15 percent of total imports) and Belarus (about 7 percent).

Electricity

10. Moldova is among the few countries in the world where more electricity is imported than produced locally. Moldova's wholesale electricity market is based on bilateral contracts, and most electricity supply is procured from MGRES power station in Transnistria or imported from Ukraine. Local electricity production meets only a fifth of demand. The share of fossil fuels in the electricity mix is almost 90 percent, mostly natural gas, above the world average fossil fuel share of two-thirds of electricity generation.

Electricity Supply	Electricity Supply by Source	Electricity Generation by Source
		

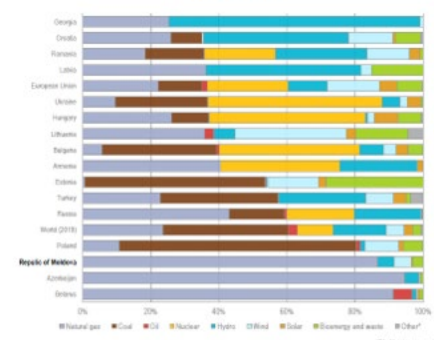
Moldova's electricity mix is dominated by natural gas.

* Includes biogases, oil and solar PV.

Source: IEA (2022a), *World Energy Statistics and Balances* (database), https://www.iea.org/data-and-statistics

11. Households account for 45 percent of total electricity consumption, services 33 percent, and industry 18 percent. Moldova's electricity grid was predominantly built during the Soviet era, making it old and inefficient. Until late-February 2022, it was synchronously interconnected with Ukraine's Integrated Power System (IPS) and, in turn, Russia's Unified Power System (UPS) in the northern and south-eastern parts of the grid. While Moldova is also interconnected with Romania, it cannot operate synchronously with Romania's electricity system, which is part of ENTSO-E and has stricter regulations for the technical operation, allowing only very small amounts of trade.

Electricity Generation by Source
(Percent)



Around 90% of Moldova's electricity generation is based on natural gas.

* Includes solar photovoltaic (PV), solar thermal, wave and ocean power, and other power generation (e.g. from fuel cells).

Source: IEA (2021), *World Energy Statistics and Balances* (database), https://www.iea.org/data-and-statistics

B. Moldova and the EU

12. Moldova is one of the focus countries of the EU4Energy program. EU4Energy was designed to support goals and aspirations of eleven focus countries to implement sustainable energy policies and foster regional cooperation on energy-sector development. Implementation is conducted by the International Energy Agency (IEA), the Energy Community Secretariat, and the Energy Charter Secretariat.

13. The energy policy agenda is driven by several interrelated factors. High reliance on imports makes energy security a priority. Moldova must adopt core EU legislation and develop its energy markets to further integrate on a regional and European level. In addition, Moldova has obligations to ensure sustainability of the energy sector and to mitigate the effects of climate change.

C. Transforming Moldova's Energy Sector

14. The IEA Roadmap aims to support Moldova to transform its energy sector forward with regard to the green energy transition in five key reform areas: i) energy infrastructure, ii) energy efficiency, iii) renewable energy, iv) consumer protection, v) environment and climate change.[2] The Roadmap identifies 34 Policy Reform Measures (PRM), which will establish and implement policy and legal framework in alignment with the EU and Energy Community acquis. The 34 PRMs are suggested to be executed over 6 years to allow adequate time for the implementation of each PRM. It should also be stressed that in many ways the PRMs build on each other. Reforms included in Phase 1 have already been successfully completed.

PRM Nr.	Title
Phase 1 – January 2023 till June 2023	
1	Approval of amendments to the Energy Law to align with the CEP (Governance Regulation or establishing legal basis for NECP)
2	Approval of amendments to the Law on Energy Efficiency to align with the Energy Efficiency Directive 2018/2002
3	Approval of amendments to the Law on the Promotion of Use of RES to align with the CEP (Renewable Directive 2018/2001)
4	Launch of construction of the Vulcanesti-Chisinau OHL
Phase 2 – June 2023 till December 2024	
5	Certification of transmission system operator (Moldelectrica) according to pre-established model for unbundling
6	Approval of amendments to the Electricity Law to align with the Clean Energy Package (Electricity Directive)
7	Approval of the normative framework necessary for the establishment of the Energy Efficiency Residential Fund
8	Approval of amendments to the Law on Energy Performance of Building to align with the EU acquis for energy efficiency in buildings
9	Implementation of a renewable energy auction
10	Approval of National Energy and Climate Plan
11	Approval of Long-term Strategy on Building Renovation (including reform of the multi-dwelling apartment building sector)
12	Reassessment of support scheme for winter period 2023/2024
13	Approval of a new Ten-Year Network Development Plan (electricity)
14	Approval of National Adaptation Strategy
15	Approval of Climate Change Law
16	Approval of Low emission development programme

[2] International Energy Agency Roadmap

17	Introduction of new (rescaled) energy labels into national legislation
18	Operationalization of EVF/ERVF 2nd window to replace old appliances of most vulnerable consumers
Phase 3 – January 2025 till December 2025	
19	Approval of outstanding secondary legislation in the field of energy efficiency
20	Approval of outstanding secondary legislation in the field of renewable energy
21	Approval of revised Energy Strategy
22	Establishing operational energy efficiency obligation scheme
23	Functional deployment of Energy Efficiency Residential Fund
24	Implementing pilot activities to support energy efficiency in the residential sector (residential buildings), under the Energy Efficiency Residential Fund
25	Completion of construction of the Vulcanesti-Chisinau OHL
Phase 4 – January 2026 till December 2026	
26	Expanding the activities of the Energy Efficiency Agency to support deployment of energy efficiency measures in different sectors
27	Establishing an operational system for energy certification of buildings
28	Introduction of GHG emission permits in the Moldovan legislation
29	Deployment of MRV system aligned with the EU requirements
30	Launch of construction of the Balti Suceava OHL
Phase 5 – January 2027 till December 2027	
31	Establishing independent control system for energy performance of buildings certificates and inspection reports
32	Approach to support vulnerable consumers in non-winter period (in addition to 2nd window of EVF/ERVF)
Phase 6 - January 2028 till December 2028	
33	Development of National Information System for EE in the building sector
34	Operational deployment of digital platform for all energy related vulnerable consumer schemes application

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431 USA

November 20, 2023
Chişinău, Moldova

Dear Ms. Georgieva:

1. The attached provide updates to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) of April 4, 2023. The MEFP reports on recent economic developments, reviews progress in implementing Moldova's program under the Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangements and sets out macroeconomic and structural policies that we plan to implement going forward, including to address significant climate-related challenges.

2. Following a sharp contraction in 2022, largely due to the ripple effects of the protracted war in Ukraine, surging commodity prices and costs of living, and weaker-than-anticipated agricultural production, our economy started to stabilize in 2023. We expect a modest economic recovery in 2023, driven by a pick-up in agricultural production and a gradual rebound of domestic demand supported by monetary easing and declining inflation. While we successfully tackled multiple external shocks, the persistent uncertainty associated with the proximity to the war remains a significant obstacle in shaping and executing policies. The ECF/EFF program continues to play a crucial role in mobilizing substantial support to overcome the challenges posed by external and internal headwinds.

3. Despite this challenging environment, we have managed to keep program implementation on track for the most part. We met all end-June 2023 quantitative and indicative targets (ITs), with the exception of the IT on targeted social spending which was missed due to savings from the Energy Vulnerability Reduction Fund (EVRF). We also met three structural benchmarks: we assigned a separate code in the registry of budgetary institutions maintained by the Ministry of Finance to ensure that the Anti-Corruption Prosecution Office (APO) operates with an independent budget, we prepared a targeted review of the BRRL and the relevant secondary legislation, and we adopted secondary legislation to insurance sector. We also met all end-September indicative targets except the one on targeted social spending, due to savings from the EVRF. We recognize that the revised institutional anti-corruption framework adopted in July 2023 required further improvements, and in that respect, we amended the Criminal Procedure Code to ensure that APO investigative jurisdiction covers all types of corruption related offenses of high-level officials. This was implemented as a prior action for this review in November 2023.

4. To support our ongoing efforts, we request the completion of the fourth review of the ECF/EFF program and the release of the sixth tranche in the amount of SDR 70.95 million (SDR 51.9 million under the EFF and SDR 19.05 million under the ECF), approximately US$92 million. Moreover, to ensure sufficient time to complete key reforms under the program, we are requesting a 6-months extension of the ECF/EFF arrangement, and accordingly, a rephasing of the remaining disbursements. We believe that the policies outlined in the accompanying MEFP are sufficient to meet our program's objectives.

5. To support our ambitious agenda to address climate challenges and facilitate efforts to catalyze climate finance from other official and private partners, we are also requesting an arrangement under a 22-month Resilience and Sustainability Facility (RSF), with access in the amount of SDR 129.375 million (75 percent of quota), to be provided to the government as budget support. To this end, we have prepared a comprehensive reform package, also outlined in the attached MEFP. We have also finalized a Memorandum of Understanding (MOU) between the National Bank of Moldova and Ministry of Finance that clarifies responsibilities for timely servicing of the financial obligations to the IMF under the RSF arrangement.

6. We are prepared to take further actions, as necessary, to achieve our program objectives. According to IMF policies, we will consult with staff prior to adopting such measures, revising the policies outlined in this MEFP, or adopting additional measures that diverge from program objectives.

7. In accordance with our commitment to transparency, we approve publication of this letter and its attachments, and the accompanying staff report by the IMF.

Sincerely yours,

/s/

Dorin Recean
Prime Minister

/s/

Petru Rotaru
Minister of Finance

/s/

Octavian Armașu
Governor
National Bank of Moldova

Attachments: Memorandum of Economic and Financial Policies (MEFP)
Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

I. Macroeconomic Developments and Outlook

1. The ongoing Russia's war in Ukraine continues to cast a shadow over Moldova's economic and social environment. While conditions stabilized somewhat and we successfully tackled multiple external shocks, persistent uncertainty related to the proximity to the war and Russia's continued presence in the breakaway region of Transnistria remain a significant challenge in shaping and executing policies. Moreover, the continued influence of vested interests and risks from sporadic protests are undermining the fragile social fabric and political stability ahead of and during the electoral cycle. Against this backdrop of risks, the government continues to prioritize strengthening state institutions, supporting economic recovery, enhancing contingency planning, and reinforcing state security. Recognizing our efforts to improve energy security, diversify the economy and gradually improve institutions, Moody's changed Moldova's rating outlook from negative to stable in August 2023.

2. We have managed to safeguard energy security so far, but risks remain. We have successfully diversified our sources of gas supplies and decoupled from dependency on Gazprom. In line with the contingency plans, this was achieved by leveraging fiscal buffers and EBRD credit lines. We are continuing re-stocking our gas reserves, taking advantage of more favorable European prices. However, risks remain in the electricity sector due to dependency on electricity supplies from the MGRES power plant in Transnistria. In October, MGRES provided about 85 percent of the total electricity demand, while Romania and domestic suppliers provided the rest. We have secured electricity deliveries from MGRES through end-2024 at the same price.

3. We are also continuing to provide significant support to refugees from Ukraine. This year has seen a stabilization in the number of refugees from Ukraine between 100,000 and 110,000. Partnering with international organizations, we have aimed for a "whole of society" approach, supporting both refugees and the most vulnerable local families, including those hosting refugees. At the same time, national systems were strengthened, including to improve the quality and efficiency of the asylum system and the implementation of the Temporary Protection regime, to open pathways to the longer-term inclusion of refugees into national systems. Key challenges remain, however, including securing sufficient budgetary resources to include refugees in social services, ensuring sufficient governmental systems and personnel are in place to handle the increased caseload, and acquiring the necessary financial and technical support from donors for the longer-term inclusion of refugees.

4. After contracting sharply in 2022, the economy is expected to modestly recover this year.

- ***Growth***. The economy contracted by 2.4 and 2.2 percent y/y in Q1 and Q2 of 2023, respectively, on account of weak domestic demand. In H2 2023, the economy will be supported by a pick-up in agricultural production and a gradual but modest rebound of consumption and investment, supported by monetary easing and declining inflation.

- ***Inflation***. Headline inflation has been decelerating faster than expected, reaching 6.3 percent in October this year (already within the National Bank of Moldova's (NBM) tolerance band), from a peak of 34.6 percent in October 2022. The deceleration was driven by a carefully calibrated monetary policy and a sharp decline in food and fuel prices as global prices receded, the energy crisis abated, and agricultural production gradually recovered from the drought in 2022. This trend is expected to continue.

- ***Fiscal position***. The general government deficit was smaller than envisaged in H1 2023, as weaker revenue collection was more than offset by continued under-execution. Revenue underperformance was recorded in VAT on account of lower imports (especially fuel) and a faster-than-expected fading inflationary effect on consumption. On the expenditure side, transfers to households recorded about 25 percent savings in the Energy Vulnerability Reduction Fund (EVRF), due to lower international energy prices and favorable weather.

- ***External***. The current account deficit narrowed to 12.4 percent of GDP in H1 2023, reflecting an improvement in services and income balances, while exports of goods remain weak, declining by 12.7 percent in H1 2023 relative to the same period last year. Gross foreign exchange (FX) reserves continued to build up, reaching USD 4.9 billion in mid-September; at more than 5 months of import coverage, they provide adequate cushions against external shocks.

- ***Monetary and financial policies***. The strong disinflationary outlook has led to an easing of the monetary policy stance, with NBM cutting its policy rate since December 2022, reaching 6 percent in June 2023, from the peak of 21.5 percent. The financial sector continues to show resilience, with deposits and liquidity buffers exceeding pre-war levels. However, credit growth remains moderate and non-performing loans (NPLs) somewhat increased.

5. The outlook is subject to significant uncertainty with large downside risks. Further escalation of the war leading to new waves of refugee inflows to Moldova, or a deterioration of security and economic conditions in Transnistria could put additional strain on public finances, undermine confidence and exert pressure on the exchange rate. Although risks to energy sector have abated, additional energy shocks could aggravate Moldova's economic outlook, create fiscal and balance of payments pressures, weak consumption and output losses, and further upset the fragile social fabric. Political instability, including in connection with elections, could complicate the ongoing reform momentum. Extreme weather events pose significant risks to the energy and agricultural sectors. However, faster-than-expected progress towards EU accession, a faster recovery in domestic demand, and a stronger rebound in economic activity of trading partners present upside risks to the outlook.

II. Program Developments

6. Our program implementation remains generally strong despite the challenging environment. We met all the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-June 2023, with the exception of the IT on targeted social spending which was missed due to savings from the Energy Vulnerability Reduction Fund. We met the three structural benchmarks (SBs) for end-June 2023 – in particular, we: (i) assigned a separate code (level 2 of the organizational budget classification) in the registry of budgetary institutions maintained by the Ministry of Finance to include Anti-corruption Prosecution Office (APO) as a separate line item, in order to ensure that the APO operates with an independent budget; (ii) prepared a targeted review of the Bank Recovery and Resolution Law (BRRL) and the relevant secondary legislation in line with good practices; and (iii) adopted secondary legislation on insurance and licensing, qualified shareholders and fit-and-proper and prudential requirements. We also introduced a general Anti-Avoidance-Rule provision in the Tax Code to counter domestic and international abusive tax practices (**end-September SB**). Moreover, well ahead of the end-December deadline, we extended the tax expenditure analysis to include excises, custom duties and real estate tax (**end-December SB**). Although in July 2023 we modified the law adopted in April on the anti-corruption institutions (a prior action for the 3rd program review), we have adopted mitigating measures and amended the July law to ensure all high-level officials are subject to APO jurisdiction, for all corruption-related crimes (**prior action**).

7. On March 31, 2023, we created an escrow account at the NBM and deposited the outstanding amounts to service the debt owed to the Russian Federation, in line with the Technical Memorandum of Understanding (TMU). These obligations stem from old commercial debt contracted in 2001, with the current amount outstanding at around USD 14.6 million from a USD 91 million total. The escrow account fulfills the following conditions: (i) no third party (including the Treasury or the Ministry of Finance) has access to the funds deposited on the account; (ii) funds deposited on the account can only be used to service the debt to the Russian Federation, according to the repayment schedule and in line with international sanctions; and (iii) funds accumulated on the account can only be transferred back to the Ministry of Finance if there is legal evidence of an agreement to service the debt through other instruments or if funds need to be transferred to another account with the same purpose.

III. Policy Framework

A. Fiscal Policy

8. Fiscal policy in 2023 will continue to focus on alleviating the impact of the crisis, while preparing the ground for stronger and sustainable growth. The approved 2023 budget prioritized measures to respond to the cost-of-living crisis, ensure energy security and address low civil servants' salaries. We indexed pensions in line with growth in social security contributions (by 15 percent), increased public sector wages for health workers (by 15 percent) and allocations for existing social assistance programs (including the *Ajutorul Social* Program and heating assistance (APRA)). To protect the most vulnerable from **energy price shocks**, we allocated emergency contingency funds for energy and implemented the targeted energy poverty reduction scheme. Accounting for an increase in pledged grants, we approved the first supplementary budget in May, increasing the allocation for pro-growth capital expenditure. Moreover, we prepared a second supplementary budget in October that reflected revenue trends, budget execution, available financing; it reprioritized spending for teachers and police (a one-off payment), and spending for Regional Development Fund, Agriculture Development Fund, and the Road Fund. We remained within the general government fiscal deficit target agreed under the program, while preserving adequate contingency buffers to safeguard energy security.

9. Our 2024 budget will gradually transition to support growth enhancing reforms, while providing moderate consolidation. To this end, we will start to reprioritize expenditure towards infrastructure investment, supporting private sector development on the expenditure side, as well as climate and environmental protection actions. We will also initiate the civil service reforms to attract and retain qualified staff. Social support will continue to support the most vulnerable, with continued reforms to improve targeting. To support these policies and create sufficient fiscal space, we will enhance revenue mobilization by further advancing tax administration reforms, phasing out crisis related tax relief, reducing tax expenditures and expanding the VAT base. With these measures, we will target to achieve an overall deficit of 4.6 percent of GDP.

10. We recognize that the risks around the baseline are high, particularly with existing security threats and an uncertain energy outlook. Accordingly, we continue to update our contingency plans and policies in consultation with the IMF to the evolving risk landscape. Should these risks materialize (¶4), we will also seek additional financial support from our partners in the form of grants and concessional loans.

11. Beyond 2024, fiscal policy will be guided by the objective of pursuing our developmental goals while preserving fiscal sustainability. Our medium-term budget framework will target a reduction in the general government deficit from 4.6 to 3.1 percent of GDP in 2024–27, anchoring the total public debt to GDP ratio below 45 percent to retain sufficient buffers against contingent liability risks and shocks. This will be underpinned by reforms to mobilize domestic revenues, improve tax administration, and promote sustainable development-focused spending. We aim to enhance spending efficiency, develop the domestic capital market, and strengthen fiscal governance and transparency.

Reforms to Strengthen Revenue Mobilization

12. Tax policy, revenue administration, and customs reforms remain priorities. In consultation with IMF staff, we plan to:

- **Conduct a comprehensive tax policy diagnostic**. We recognize that our tax system has suffered frequent isolated changes that over the years led to a buildup of inefficiencies and complexities. With the help of the IMF, we will conduct a comprehensive diagnostic of the existing system, to assess the interlinkages and consistencies among all major taxes. This would help us identify main weaknesses and inform our policy decisions, and move towards a more progressive tax system.

- **Identify tax incentive provisions for phasing out.** Informed by the completed tax expenditure reviews analysis (**end-December 2023 SB**, met), we will prepare a proposal identifying tax expenditures to be phased, based on cost-benefit analysis (**new end-December 2024 SB**). This will help eliminate abusive practices, reduce tax system inefficiencies, and mobilize domestic revenues.

- **Continue strengthening revenue administration.** We will continue to enhance the capacity of the State Tax Service (STS) in line with IMF TA, including the Tax Administration Diagnostic Assessment Tool (TADAT) recommendations, by: (i) building a comprehensive compliance risks management process with a functioning governance framework in the STS that is able to detect and effectively address the biggest tax revenue risks; (ii) investigate and refer tax crimes for prosecution by signing relevant protocols, addressing gaps in legislation, and organizing training and technical assistance from the IMF; (iii) enhancing voluntary tax compliance; (iv) launching the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes by January 2024; (v) introducing a General Anti-Avoidance Rule provision in the Tax Code to counter domestic and international abusive tax practices (**end-September 2023 SB**, met); (vi) implementing an automated tax filling compliance program to improve on-time filing of tax returns, including by assigning penalties for late- or non-filing (**end-December 2023 SB**).

- **Continue actions towards reduction of global greenhouse gas - (GHG) emissions.** Road fuel excises are adjusted annually by nominal GDP growth with a view to converge towards minimum EU levels by 2025. After the energy crisis subsides, we will step up our work on the revision and improvement of the taxation system in line with national, regional and international commitments on GHG emissions, following a thorough assessment of social and economic considerations.

- **Advance customs reforms in a number of important areas.** The revisions to the custom code, developed in consultation with the EU, and approved by the Parliament in August 2021, will become effective on January 1st, 2024. The new Code aims to align our customs regulations and procedures with international best practices and bring it closer to EU directives. To support the implementation of the new customs code, we are developing relevant regulations. Going forward, we will update the relevant legislation to facilitate implementation of the WHO Protocol to Eliminate Illicit Trade in Tobacco Products.

- **We will leverage the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime to strengthen tax compliance.** Existing AML/CFT tools, such as for identifying the beneficial owners of entities and accounts and screening of cross-border financial flows, can be used to facilitate detection and enforcement of tax offences and incidences of abusive profit shifting (including to non-transparent offshore jurisdictions), and to trigger tax controls. In this regard, we aim to improve the exchange of information between authorities, strengthen the cooperation between the tax authority, Financial Intelligence Unit, NBM and law enforcement bodies, with an additional focus on cross-border tax offences.

Reforms to Improve Budget Quality and Fiscal Transparency

13. We believe in the importance of strengthening fiscal transparency and budgeting. To that effect, we will prioritize the following actions:

- **Institutionalize spending reviews.** We see spending reviews as critical for identifying the scope for efficiency improvements and cost effectiveness in key sectors. We completed a spending review for the education sector, and we are finalizing a spending review in the health sector. With a view to implement relevant recommendations from the completed spending review for education, we plan to consolidate the network of universities by absorbing smaller higher education institutions and merging research institutes with universities, while directing efficiency gains towards improving the educational process. We will work closely with our UN partners to conduct additional social sector spending reviews in order to improve the value for money in this area, as well as to monitor the implementation of recommendations of spending reviews, including related to improved quality of education, effectiveness and equity of public spending for children and other vulnerable groups.

- **Improve the credibility of the Medium-Term Budget Framework (MTBF).** Our budgets are currently subject to significant under-execution and deviations from planned expenditures. We are working with line ministries to improve coordination and better understand bottlenecks in planning and budget execution. Estimates may not fully consider the short- and medium-term fiscal impact of approved policies. We adopted the MTBF for the period 2024-26 in June 2023. In line with the objective of improving public financial management systems, we will continue efforts to preserve multiyear fiscal discipline. With the IMF technical assistance, we will work towards strengthening the MTBF preparation and implementation process. We aim to establish binding (for the first budget year) and indicative (for the following two years) multiyear expenditure limits. A stronger MTBF will ensure that citizens are aware of the full multiyear fiscal impact of new policies and their effect on long-term fiscal sustainability and will also serve as an early warning system to take corrective action when needed.

- **Implement the Public Finance Management (PFM) Strategy**. In February 2023, we approved the strategy to strengthen PFM systems for 2023-30. The strategy aims to improve planning and budgeting and increase public finances' efficiency, performance, and transparency. Building on the Strategy, we will prepare the action plan. In that respect, we already approved the Concept Document on PFM integrated IT system in May 2023, with the aim to create a single information environment, align processes, and foster digitalization. Similarly, we aim to strengthen accountability and efficiency of internal control.

- **Strengthen public procurement**. We plan to roll out a new e-procurement system to cover all public procurements, with a view to support transparent public procurement processes and delivering cost-efficient services. We are strengthening capacity of relevant governmental bodies to improve efficiency and fast-track procurement of government contracts. The government approved the Public Procurement National Program for 2023–2026, with a view to further harmonize the national regulatory framework with the Acquis Communautaire, finalize the secondary regulatory framework, develop the capacity of public procurement specialists, and promote centralized public procurement, including sustainable public procurement.

- **Enhance disclosure and the management of fiscal risks.** We have made progress in identifying and reporting fiscal risks and published a fiscal risk statement as an addendum to our budget documents starting 2018. In 2020, we expanded it to include key public private partnerships (PPPs), large state-owned enterprises (SOEs), and government guarantees including the Prima Casa housing support program. With the help of EU technical assistance, we are applying a new methodology to assess fiscal risks stemming from SOEs operating in the energy sector. We plan to expand coverage of this methodology to strategic SOEs in other sectors and expand the Fiscal Risk Statement to include climate hazard risks (section F). We will continue to improve the coverage, monitoring, inter-agency coordination, and reporting quality of contingent liabilities in our fiscal risk statements going forward (see SOE reforms).

- **Strengthen debt and cash management.** Despite recent progress, especially with respect to data quality and inter-agency coordination, financial instruments are limited and concentrated in short-term maturities, and the government securities market remains shallow. To deepen the debt market for government securities and facilitate domestic financing, we successfully issued a 10-year domestic bond in September. We will strengthen our operational capacity, strengthen our cash management practices, take steps to further develop the primary dealer system, improve inter-agency coordination, and develop a new platform for retail investors. To preserve debt sustainability, our borrowing strategy will prioritize grants and donor financing on highly concessional terms.

- **Tackle the shadow economy to create fiscal space.** The share of employment in Moldova's shadow economy is estimated at around 23 percent, comprising mainly of agriculture (about 61 percent of the total shadow economy), construction (about 22 percent), and HoReCa (about 7 percent) sectors. This employment includes undeclared work and income that would add to GDP and tax revenues if reported. The estimated losses in tax revenue are about 5-7 percent of GDP, including due to envelope wages (about 30 percent of the corporate wage bill). A functional review of the state labor inspectorate by the International Labor Organization (ILO) pointed to a weak legal framework, absence of deterrent sanctions, and weak capacity as critical constraints. Against this background, we aim to reform the state labor inspectorate to improve its governance, build capacity for better risk analysis, and enforce dissuasive sanctions. Our overarching objective is to create more fiscal space, promote fair competition, improve labor market conditions, and to crowd in informal participants into the social safety net.

Reforms to Make Expenditures Efficient, Sustainable, and Growth-Friendly

14. We aim to improve the outcomes of our public services to support growth and equity objectives. We will:

- **Strengthen our public investment management (PIM) framework to enhance the sustainable execution and quality of public investment and close large infrastructure gaps.** Guided by the 2019 Public Investment Management Assessment (PIMA) report recommendations, and the recently undertaken Climate Public Investment Management Assessment (C-PIMA), we aim to strengthen the planning, allocation, and implementation stages of our PIM cycle, taking into consideration climate and environmental implications (reform area RM7-9, section F). Building on the progress achieved so far, we will: (i) mandate compliance with the Regulation 684 for all new eligible public investment projects considered for funding under the MTBF and State budget effective from 2024; and (ii) develop a registry for investment projects approved for the implementation by the State budget, externally funded projects, and developmental funds, and make all supporting documentation public.

- **Strengthen the unitary pay system in the budgetary sector.** We plan to reform the public salary structure, based on a common understanding among all stakeholders. Towards this objective, and leveraging IMF technical assistance recommendations, we will prepare a technical proposal for a comprehensive medium-term salary structure reform to contain wage bill pressures, while ensuring efficient service delivery (including reducing the number of reference values) and illustrating the fiscal implications of different scenarios. The analysis will look at the unitary pay system in the budgetary sector, with a medium-term perspective synchronized with the MTBF process, to improve the wage-compression ratio and address critical staffing needs. Going forward, salary increases will take into account a well-defined set of criteria, aligning titles and functions.

- **Ensure the sustainability of the pension system.** Our pension system has significant challenges, including a narrow contribution base, an ageing population, and falling replacement ratios. Effective from April 2023, we indexed pensions by 15 percent in line with projected social security contributions growth. In the 2024 budget, pensions will be indexed by the inflation rate at the end of the year. In consultation with the World Bank, we intend to continue broadening the contribution base to address sustainability risks.

- **Enhance social assistance programs.** In consultation with the World Bank, we initiated the reform of the *Ajutorul Social* program which strives to strengthen the support of the most vulnerable families, improve the targeting of social assistance programs, and streamlining other program's eligibility. We also intend to shift resources from categorical (including ad-hoc categorical payments) to means-tested payments and make remote application to means-tested programs operational. The reform also includes a simplification of the proxy test, clarifying qualification criteria for *Ajutorul Social* and improving the interoperability of information systems. In close cooperation with our UN partners, we will continue monitoring the impact of the war on living standards and adjust the assistance level accordingly to ensure coverage of the most vulnerable, especially families with children.

- **Improve the design of the energy poverty reduction program.** We launched the EVRF for the 2022–23 heating season and provided support to about 760,000 out of 1,300,000 homes. Benefitting from lower international energy prices and more favorable weather conditions, the scheme realized savings of 25 percent. Preparing for the 2023-2024 winter season, we consolidated the two energy poverty reduction schemes, APRA (heating support assistance) and the EVRF, to deliver a joint benefit to households. We improved the targeting of the program, increasing the number of energy vulnerability categories, the threshold, and providing compensations for the main energy source of heating in the household. Going forward, for the 2024-2025 winter season we aim to replace in-bill support with cash transfers and make sure that energy consumption is not incentivized by the compensation system. (section F).

- **Strengthen gender equality efforts**. Labor force participation remains low for women at 35 percent compared to 43.1 percent for men, while wages for women average 13.7 percent lower than for men due to education, age, and working-time differences. Going forward, our priorities include improving work-life balance by introducing flexible work arrangements and improving access to childcare to facilitate faster reintegration of women into the workforce following maternity leave. We will also work with the UN agencies to build capacity for incorporating gender equality into the broader PFM reform agenda by providing guidelines to line ministries for tracking and reporting gender sensitive information.

B. Monetary Policy

15. The NBM stands ready to adjust its monetary policy stance consistent with its inflation targeting framework. Our monetary policy decisions continue to depend on the inflation outlook and adjustments are guided by the 12–24-month inflation forecasts, with the objective of keeping inflation within the tolerance band.

- ***Policy rates.*** Forward-looking and data-dependent monetary policy helped to contain the second-round effects of inflation and anchor expectations. After peaking in October 2022, headline inflation started to decline sharply, and we forecast the deceleration to continue in the rest of 2023. Against this disinflationary outlook, the NBM started an easing cycle in December 2022, gradually reducing the policy rate from 21.5 percent to 4.75 percent in November 2023. The NMB also relaxed bank reserve requirements in domestic currency and FX by 1 ppt and 2 ppts, respectively, in November 2023. Our future policy rate decisions will be carefully calibrated and guided by a frequent assessment of the inflation outlook, as well as through analysis of the balance of risks, given the highly uncertain environment. The NBM will also continue reviewing the setting of other policy tools, including reserve requirements, to support credit growth.

- ***Foreign exchange interventions.*** The Moldovan leu appreciated against the US dollar by around 5 percent since end December 2022 (reaching the pre-war level), supported by strengthened confidence, an interest rate differential, and robust external FX inflows. This has enabled gross foreign exchange reserves to be rebuilt to about USD 4.9 billion by mid-September 2023, more than reversing the losses at the onset of the war. The NBM stands ready to allow necessary exchange rate adjustment and will continue to manage reserves conservatively, limiting interventions to counteracting excessive exchange rate volatility while also actively communicating its intervention strategy to the market.

- ***Contingency measures.*** While remaining committed to the outlined policy approach, in the face of unprecedented uncertainties, the NBM stands ready to undertake necessary contingency measures should severe downside risks materialize and endanger macroeconomic and financial stability. In consultation with IMF staff, these measures would be used in combination with a broader macroeconomic adjustment package.

C. Financial Sector Policies

16. The banking sector remains resilient, but risks persist. Banks continue to be adequately capitalized with aggregate capital adequacy at almost 31.6 percent as of August, while nonperforming loans increased to 6.7 percent of total loans. The liquidity coverage ratio, at 240 percent, exceeded the prescribed 100 percent limit by a large margin but was lower than its pre-war level of over 300 percent. Total deposits have been gradually increasing, currently about 20 percent above the pre-war level, while the share of FX in total deposits marginally declined to 36 percent. Return on equity and return on assets were 18.3 percent and 3.1 percent in August, respectively, pointing to favorable profitability. Nevertheless, increased loan loss provisioning on account of deteriorating asset quality and elevated credit risk could weaken future bank profitability. Risks of renewed deposit withdrawals remain significant given the proximity and continuation of the war.

17. Banks' lending to households remains subdued, and we monitor the potential buildup of systemic risk. Restrictive monetary policy stance until recently, the introduction of an additional systemic risk buffer of 2 percent applied to households' exposures, and the regulations for responsible lending (including a loan-to-value (LTV) threshold of 80 percent and a debt service-to-income (DSTI) threshold of 40 percent as well as tighter creditworthiness assessments) have contributed to the slowing credit growth. The new loans to households decreased by 13 percent (y/y) in H1 2023. In particular, real estate loans decreased by 47 percent (y/y) in H1 2023, while new consumer loans remained broadly at the same level. We are evaluating the initial calibration of the macroprudential limits and may adjust if needed. With bank credit growth below its long-term trend, we maintained the counter-cyclical buffer rate at zero, the systemic buffer rate at one percent, and are reassessing the adequacy of the recent increase in the systemic risk buffer for households' exposures. We have just requested a Financial Sector Assessment Program (FSAP) for 2025, which would help us take stock of progress in our reforms in the financial sector.

18. We remain committed to further strengthening the institutional autonomy and governance of the NBM, in consultation with the IMF. Against a highly uncertain background, the NBM's independence remains critical for ensuring effectiveness in preserving macroeconomic and financial stability. In this regard, we have already implemented IMF's safeguards recommendations as specified in the end-October 2022 SB and are advancing in implementing others. We will further strengthen NBM's independence by ensuring the staggering of the mandate for the NBM's Supervisory Board members in line with the principles in the Safeguards Assessment Report. We have also prepared a package of amendments that include: (i) granting the NBM operational autonomy over its assets; (ii) stating derogatory provisions from the administrative procedures code to eliminate inappropriate deadlines for the NBM supervision; and (iii) adding an explicit mandate for financial stability and macroprudential policy of the NBM, and we will present it to Parliament (**new end-December 2023 SB**). We also plan to request the IMF to conduct a Voluntary Central Bank Transparency Review of the NBM.

19. We are fully committed to preserving recent banking sector reforms. To this end, we will maintain our current tight regulatory standards and ensure that preservation of the actions undertaken in the process of the removal of shareholders that do not fulfill the fitness and probity criteria—including those acting in concert—is enforced. We are determined to bring perpetrators of the fraud to justice through an independent and comprehensive investigation, prosecution, and judicial process. In this context, we recognize financial stability risks arising from legal proceedings against banks as legal entities. Against this background, we are strengthening our crisis management arrangements by complementing discussions on financial stability and fiscal risks in the banking system at the level of the National Committee for Financial Stability (NCFS) with also considering these risks at the level of the Supreme Security Council. We have prepared—and will regularly update and discuss in the NCFS—comprehensive contingency plans to: (i) ensure that all provisions and capital charges applied to banks due to pending legal decisions are in line with IFRS and NBM regulations; (ii) require credible and time-bound capital restoration plans in cases where capital falls below prudential limits alongside other supervisory corrective actions; and (iii) if necessary, implement resolution actions identified by competent authorities to preserve financial stability in line with the BRRL. We will initiate steps towards resolving the Victoriabank legacy, which may help boost credit and attract foreign investment.

20. We are determined to strengthen our financial supervision, including by bolstering our financial crisis management and macroprudential frameworks in line with the Financial Sector Stability Review (FSSR) recommendations. To this end, the NBM prepared the targeted review of the BRRL and the relevant secondary legislation, in line with good practices as appropriate to Moldova and based on IMF staff recommendations, to identify shortcomings, introduce more flexibility to the MREL requirement, the conditions of access to the resolution fund, and the participation of the Deposit Guarantee Fund (DGF) in the financing of the resolution measures (**end-June 2023 SB**, met) and we plan to adopt it by June 2024. We have also advanced in the comprehensive review of the bank liquidation framework, and prepared the amendments to the existing legislation with a view to strengthen liquidation procedures, including by introducing a forced liquidation procedure that achieves public policy objectives without hindering the discharge of other functions of the NBM.

21. We pledge to bolster financial safety nets. We will enhance the DGF's capability to pay out insured deposits in case of future bank failure, including by conducting stress tests for both the DGF and banks. We have advanced work on strengthening the resolution preparedness of the NBM for the implementation of the Bridge Bank Tool and Bail-in tool, including preparation of operational plans, and enhance inter-agency cooperation.

22. We are committed to developing a sustainable and environmentally responsible financial system, including ensuring that climate risks do not undermine financial stability in line with the NBM's strategic plan. We aim to build a sustainable finance framework based on best international and EU practices, starting with the reforms under Moldova's arrangement under the

Resilience and Sustainability Facility (RSF) to be completed by end-2025 (section F). We are starting this work that involves various intergovernmental agencies, NBM, the National Commission for Financial Markets (NCFM), financial sector representatives, climate and environmental experts, and support from development partners. The NBM is also building regulatory and supervision capacity to monitor, assess, report, and manage financial, environmental, and climate-related risks, including by participating in various workshops and Sustainable Banking and Finance Network (SBFN) Working Groups. The NBM will incorporate the Sustainable Finance Taxonomy and other relevant guidance and regulations into its regulatory framework for financial sector participants. We already amended our reserves management framework to explicitly allow for investment in green bonds and will continue to work on relevant guidance and regulations to develop a sustainable capital market in Moldova.

23. We are improving the oversight of the non-bank sector's viability, corporate governance, and risk management practices. We transferred the regulatory and supervisory responsibilities for the oversight of Non-Bank Credit Organizations (NBCO), savings and lending associations, credit history bureaus, insurance companies, and insurance intermediaries to the NBM effective July 1, 2023. Following the transfer, we are currently upgrading the reporting requirements for NBCOs and optimizing and digitalizing the processes for insurers. The NCFM adopted secondary legislation on licensing, qualified shareholders, and fit-and-proper and prudential requirements (**end-June 2023 SB**, met) and the NBM will prepare and adopt the remaining necessary secondary legislation for Pillar II and III of Solvency II (**new end-September 2024 SB**). With help of the EU Twinning Project, the NBM is preparing a Balance Sheets Review specification to assess the readiness of insurers for implementation of Pillar I of Solvency II.

24. We are strengthening the regulatory frameworks for capital markets and upgrading the institutional architecture for financial consumer protection.

- ***Central Securities Depository (CSD).*** We will consolidate supervision of capital markets by transferring the capital market–related supervisory competencies of the CSD from the NBM to the NCFM. We have set up an intra-agency working group to establish the CSD's supervision, ownership, and governance under the new regulatory framework. We have drafted legislation amending the normative acts of the Single Central Securities Depository Law to clarify the regulatory and supervisory responsibilities between the NBM and NCFM to promote the safety, efficiency, and integrity of the capital market and securities settlement systems. This Law was approved by the Government and adopted by Parliament in September 2023.

- ***Financial consumer protection.*** We entrusted the NCFM with the financial consumer protection mandate, including well-defined financial consumer protection responsibilities for all financial services from July 2, 2023 (for banking services starting January 1, 2024). We have developed the concept note for the institutional architecture underpinning the reform, which clearly defines the objectives and responsibilities between the NBM and NCFM. The legislation amendments necessary for the reform were approved by the Parliament on June 30, 2023, and the NCFM approved the new organizational chart to reflect better the new competences. We also ensured adequate funding of the NCFM to perform its new mandate.

25. We are taking steps towards improving financial inclusion. To this end, the NBM is actively modernizing the financial market infrastructure to facilitate cashless, cheaper payments through the development of the instant payment scheme by February 2024 and the PSD2-based open banking system in Autumn 2024. In light of these advances, we will repeal amendments to the law 114/2012 that allows unilateral access of EU account servicing payment service providers and payment initiation service providers to operate in Moldova to assure fair competition. We are working towards joining the Single Euro Payments Area (SEPA). As recommended by the FSSR, we updated the primary legal framework for online identity verification system (e-KYC procedure) effective July 1, 2023, which will improve customer services and use of regulated financial services. This will also increase the reach and effectiveness of our AML/CFT regime. The NBM's fintech division proactively engages with the private sector in order to develop new products based on the instant payments infrastructure that leverage digital services and provide modern, fast, efficient and inclusive financial services for consumers and SMMEs. We are committed to setting up an inter-agency committee with a mandate to develop, including an action plan, implement, and monitor National Financial Inclusion Strategy (NFIS) with support from the WB (**new end-June 2024 SB**).

26. We are committed to protecting our financial sector from illicit financial flows. Towards this end, we will continue to strengthen our AML/CFT regime, particularly by addressing vulnerabilities identified in the 2019 MONEYVAL assessment. Following the prohibition on the provision of virtual asset services in the new AML law, unauthorized cryptocurrency exchanges continue to operate, bypassing AML/CFT controls and posing significant ML/TF and national security threats. In addition, some licensed foreign exchange bureaus engage in undeclared currency exchange operations, which represents material ML/TF vulnerability. The Ministry of Internal Affairs will take enforcement measures and sanction detected provision of virtual asset services and undeclared foreign exchange activity to protect the integrity of the financial sector. To implement the risk-based approach to AML/CFT supervision and with the support of IMF capacity development project, we are enhancing our data collection and AML/CFT institutional risk assessments for banks. We are developing a guidance for the business ML risk assessments for the foreign exchange sector and have been conducting outreach on better understanding of risks and more effective application of preventive measures focusing on suspicious transactions reporting, politically exposed persons, and the identification of beneficial owners. We commit to continuing these efforts, including through targeted supervisory activities with a focus on cross-border ML/TF risks. We are developing a national mechanism for monitoring cross-border payments to address illicit financial flow risks and will improve the coordination among all relevant actors, including the NBM, SPCSB (Office for Prevention and Fight against Money Laundering) and STS. We have adopted a National AML/CFT Strategy for 2020–25 and will update our National Risk Assessment, develop the accompanying action plan, and publish the results.

D. State Owned Enterprises and Energy Sector Reforms

27. Reforming the SOE sector remains a priority to improve efficiency and contain fiscal risks. Our SOE sector undermines competition, productivity, and private investment, while posing significant fiscal risks. The sector suffers from weak performance associated with poor governance and oversight, noncommercial mandates, and weak capacity and independence of Supervisory Boards.

- We adopted a state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization, or liquidation, as well as plans to strengthen their governance in December 2022. The rationales of the strategy, include: (i) supporting national economic interests; (ii) maintaining critical infrastructure; (iii) producing strategic goods and services; and (iv) providing basic social services.

- Going forward, we will complete a triage of SOEs owned by the central government, in line with the approved state-ownership strategy (**end-December 2023 SB**). As a first step towards this goal, we established a working group comprising of line ministries to implement the triage based on the procedures and indicators set out in the state-ownership strategy. We have adopted the methodology specifying the criteria for classification of all SOEs into five categories, those that will: (i) remain under state management, (ii) be privatized in the short-term, (iii) be privatized after certain reforms, (iv) be restructured into public institutions, and (v) be liquidated. In parallel, we are addressing legal impediments to the implementation of the SOE ownership strategy related to the delineation of public and private assets. We will develop a strategy for the SOEs at central government level that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks, (ii) a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss-making (**new end-September 2024 SB**). We also intend to propose a privatization strategy for small and large enterprises and set economic benchmarks to identify the most opportune conditions for launching de-nationalization efforts.

- We adopted the amendments to the Law on State and Municipal Enterprises in April 2023, with the support of the World Bank. These amendments authorize the owners of the state enterprises to: (i) ensure the adoption by SOEs of a corporate governance code according to the model approved by the Government, and (ii) evaluate the performance of SOE Executive Board members. Other proposed modifications introduce Audit Committees for Public Interest Entities as executive bodies of SOEs and allow for inclusion of independent members in the composition of SOE Boards. In April, we adopted the regulations on the selective process of Supervisory Board members of SOEs and their remuneration.

28. Safeguarding energy security remains our priority amidst mounting risks. We have approved the Plan of Measures for the Preparation for the 2023-24 Heating Season. The plan considers three different scenarios based on the natural gas availability and electricity deliverables. We also identified 40 preventive measures and 20 measures to reduce and mitigate the impact of gas curtailment, which are planned to be put in place under different scenarios. We have also taken measures to reduce energy consumption and improve energy efficiency.

Natural Gas

- As part of the contingency plan to safeguard energy security, in 2022, we recapitalized Energocom with about MDL 6.1 billion (2.2 percent of GDP) using budgetary resources to secure gas reserves. Together with the EUR 300 million EBRD credit line, this allowed us to accumulate sufficient gas reserves for the last winter season. An amendment of the Loan agreement between the Republic of Moldova and the EBRD to implement the "Security of natural gas supply" project secured a new tranche (no. 3) of EUR 165 million in October 2023, supplemented with EUR 35 million grant from the Norwegian Government under the NANSEN program. Following the stabilization of the natural gas market, and considering that Energocom built sufficient reserves and liquidity for the coming heating season, the company repurchased in the period of September-November 2023 MDA 1 billion of its own shares based on the Commission for Emergency Situations Decision from September 2023.

- Unbundling of transmission system operators (TSO) started in September 2023. LLC "Vestmoldtransgaz" has been designated as the operator of the natural gas transmission system (ISO model) in the Republic of Moldova, until the certification procedure is finalized.

- Amendments to natural gas related laws ensure consistency with EU and EC regulations and enhance ahead of the winter 2023–24. About 600 million cubic meters of gas have already been put in storage, which is in accordance with the Winter Plan and the Government's goal to almost fully ensure gas demand for the entire heating season.

- As a member of the EU's energy platform, we will leverage regional cooperation to advance efforts to reduce dependence on gas imports and address infrastructure bottlenecks and inefficiencies. Specifically, in line with the South-East European regional action plan of the EU energy platform, we ensured that customs regulations enable Moldova to operationalize virtual reverse pipeline flows. We have adjusted the regulatory framework to ensure closer and faster alignment of domestic tariffs with imported prices.

- In agreement with the Energy Community Secretariat, by September 2023, ANRE (National Agency for Energy Regulation) has issued the final certification for the unbundled gas system operator in line with one of the legally prescribed models.

Electricity

- The war continues to create supply and price uncertainties. We were able to secure electricity purchases with MGRES—the electricity producer owned by the Russian company Inter-RAO and located in the Transnistrian region—through end-2024 at a beneficial price. Given the shortage of gas imported from Gazprom starting October 2022, MGRES reduced substantially the generation and supply of electricity, creating a need for procurement from spot markets abroad. We have secured supplies from Romania through the ENTSO-E, but capacity remains constrained. Resorting to EU traders or spot market acquisitions is required to satisfy demand. We engaged economic agents and households to save energy during peak hours to help balance the demands on the grid.

- Unbundling of the electricity transmission system operators (TSO) has been implemented, and the certification of the electricity transmission system operator was approved.

- Amendments to electricity related laws, in line with EU regulations on the integrity and transparency of the wholesale energy market, are being finalized and the government plans to get the amended laws passed during October 2023.

E. Rule of Law and Anti-Corruption

29. Strengthening the rule of law, promoting good governance and addressing corruption remain critical priorities. We are committed to combatting high-level corruption, rooting out dishonest officials, and laying the foundation for strong rule of law in Moldova. Our short-term goals include cleansing the system and developing a rigorous framework to preserve the independence and accountability of judicial actors, which is critical to addressing corruption, reducing avenues for political influence, instilling more trust in our court system, and improving delivery of justice. We also recognize the importance of capacity building and ensuring the effective functioning of key anti-corruption institutions. To this end we are currently reviewing our national anti-corruption strategy to inform the preparation of a new strategy.

30. We recognize the importance and need to strengthen the independence, integrity, and effectiveness of the judiciary and prosecution service. We endeavor to modernize our judicial system in line with recommendations by international bodies and experts. These priorities are contained in our Strategy on Ensuring Judicial Independence and Integrity for 2022–2025, which was adopted by Parliament in early-December 2021. The constitutional amendments adopted in 2021 have paved the way for important reforms to the Superior Council of Magistrates (SCM), namely strengthening the role of the SCM in decisions regarding the judge's career and removal of ex officio members, in line with recommendations by the Venice Commission. In March 2022, we passed legislation governing the integrity vetting of candidates for the SCM and the Superior Council of Prosecutors (SCP) and their respective colleges (so-called pre-vetting). This mechanism was established in consultation with the Venice Commission and is carried out for members of the SCM and SCP. Our ultimate objective is to strengthen the independence, accountability, and capacity of the SCP as the prosecutorial governance body. To this end, the eventual removal of ex officio members of the SCP is envisioned – required legal provisions were adopted with delayed entry into the force. An integrity assessment (full vetting) law was adopted and entered into the force on August 22, 2023, prioritizing vetting of high-level judges and prosecutors, with an objective to "cleanse" the ranks of the judiciary and prosecution service. We also adopted amendments to remodel the Supreme Court of Justice (SCJ) as a cassation court with an objective to improve the quality of case law. In addition, we provided for an extraordinary integrity assessment of the future judges of the Supreme Court of Justice, which is currently ongoing.

31. We will grant sufficient capacity and legal powers to APO to effectively detect, investigate, and prosecute high-level corruption. We revised the institutional anti-corruption framework in July 2023, with APO mandated with both investigation and prosecution of high-level corruption and NAC responsible for low and mid-level corruption. We amended the Criminal Procedure Code to ensure that APO's investigative jurisdiction covers: (i) all types of corruption-related offences listed in the UN Convention against Corruption, including money laundering and embezzlement when committed by high-level officials in APO's mandate, as well as false asset declarations, and (ii) all high-level officials defined in the Article 123(3) with the exception of officials of districts, villages, and cities, and some other high level public officials from public central institutions, with transfer of ongoing criminal cases in line with the revised investigative jurisdiction on March 31, 2024 (**prior action)** [1] As special investigative techniques, such as wiretapping and surveillance, are critical for effective investigation of corruption offences, APO's investigative officers will be granted these powers in the law on the special investigative techniques by end-November. To ensure that APO has sufficient capacity to deliver on the mandate to investigate high-level corruption, the Ministry of Justice, in consultation with the Prosecutor General's Office and APO, is developing an assessment of capacity needs, including required equipment, premises and staffing (prosecutors, investigative officers, counsels and experts). This assessment will inform the budgetary allocation for APO in the national budget for 2024 as we already provided APO with an independent budget by assigning APO a separate budgetary code (**end-June 2023 SB**, met). We are finalizing a new organizational structure with staffing for APO and separate premises have been identified. Amendments to the law on specialized prosecutor's offices allowing APO to second investigative officers from the Security and Intelligence Service for three years were adopted. We also commit to increase the operational autonomy of APO, adopting legal amendments to allow it to have control over its human resources, granting APO a leading role in identifying prosecutorial candidates and forming panels for interviews and decisive say in the selection and transfer of prosecutors to APO as well as in disciplinary actions by end-February 2024.

32. To complete the anti-corruption institutional infrastructure, the President's Administration initiated the creation of an anti-corruption court. To ensure timely and specialized adjudication of corruption cases, the President's Administration has initiated the establishment of an anti-corruption court, submitting a draft law to Parliament in July 2023. The anti-corruption court law is one of the main priorities in the justice reform agenda in the context of delays on high-profile corruption cases and limited successes in addressing corruption in the justice sector by the current judiciary. We will issue Government's opinion on the draft law to the Parliament and, informed by the IMF's technical assistance, will enhance the draft law further before it is adopted. The law on the

[1] High-level officials in APO's investigative jurisdiction include: (a) a person whose manner of appointment or election is provided for by the Constitution of the Republic of Moldova or who is invested in function, by appointment or election, by the Parliament, the President of the Republic of Moldova or the Government, with the exception of mayors and deputy mayors of municipalities and districts, local councilors of municipalities and districts; (b) senior civil servants; (c) public prosecutors; (d) Inspector-judge of the Judicial Inspection; (e) Director and Deputy Director of the Intelligence and Security Service; (f) Director and Deputy Director of the National Anti-Corruption Centre; (g) the Secretary of the Supreme Security Council, the Chief of the General Staff of the National Army, other responsible persons of the General Staff of the Armed Forces, as well as persons holding the military grade of General or a special grade corresponding to it; (h) Chairperson and Vice-Chairperson of the National Financial Market Commission; (i) Governor, First Deputy Governor, Deputy Governor of the National Bank of Moldova and member of the Supervisory Board of the National Bank of Moldova; (j) Director General, Adviser for Dispute Resolution of the National Agency for Dispute Resolution; (k) Director of the State Tax Service; (l) Director of the Customs Service; (m) Director General of the National Agency for Food Safety; (n) Director General of the National Health Insurance Company; (o) Director General of the National Social Insurance Agency; (p) Director and Deputy Director of the Service for the Prevention and Combating of Money Laundering; (q) Deputy Head of the General Inspectorate of Police, the General Inspectorate of Border Police and the General Inspectorate of Carabiniere; (r) Director and Deputy Director of the Public Procurement Agency; (s) Director and Deputy Director of the Public Institution "Public Services Agency".

establishment of the anti-corruption adjudication infrastructure is planned to be adopted, in consultation with the IMF staff and in line with the Venice Commission opinion, by the end of 2023 or early 2024, including a credible framework for the selection process of anti-corruption judges for both first and appeal instance, which will promote appointment of persons with impeccable reputation and high professional and moral qualities using objective selection criteria, with jurisdiction covering cases investigated and/or prosecuted by APO, ensuring sufficient staffing (**new end-March 2024 structural benchmark**).

33. Corruption enforcement is increasingly focusing on high-level corruption and recovering criminal proceeds. Since January 2023, NAC and APO have submitted to court over 140 corruption cases involving one former President, one former Prime Minister, one former minister, four former and current members of Parliament, three prosecutors, one judge, one former governor of the NBM and other high-level officials. APO obtained 130 sentences in the first instance court, including confiscation orders for over MDL 1.7 million. Recently APO prosecutors obtained an appellate adjudication in a Bank Fraud case, sentencing in absentia a former high-level official to 15 years imprisonment and ordering over MDL 5.2 billion confiscation. We are also developing a database of seized assets at the Criminal Assets Recovery Agency, allowing for more transparency into the management of confiscated assets and the types of enforcement measures that have been taken following final court decisions. Among the priorities moving forward will be the intensification of scrutiny of high-level officials' sources of wealth, including assets held abroad, leveraging the asset declaration regime and the illicit enrichment offence. We aim to improve the effectiveness of our asset declaration regime, developing amendments to the law on the National Integrity Agency and will adopt standard operating procedures to ensure uniformity of application of law by the integrity inspectors.

34. We remain resolute in achieving progress on asset recovery from the 2014 banking fraud through criminal justice efforts and channels and cooperation with foreign counterparts, including on the establishment of joint investigative teams and task forces. A new program for asset recovery 2022 – 2026 has been adopted and the framework on preventing and combating money laundering and terrorism financing has been adjusted partially transposing the provisions of the 5th EU Anti-money laundering Directive. We will bolster coordination among all domestic stakeholders under the leadership of the State Security Council and establish procedures for post-conviction confiscation.

F. Building Climate Resilience

35. We acknowledge that sustainable socioeconomic development is associated more than ever with the negative impacts of climate change and their mitigation. To this end, we are committed to reducing our national contribution to GHG emissions, reducing national emissions by 70 percent (88 percent conditional) in 2030 compared to 1990. We also developed our National Climate Change Adaptation and the Low Emission Development Programs up to 2030, which are being implemented through Action Plans. Our reforms are consistent with and geared towards achieving EU accession obligations. At the same time, we aim to address vital elements related to energy security and sustainable development. Furthermore, we will work towards enhancing climate resilience of our key sectors, including infrastructure and agriculture.

36. Our RSF-supported program will help us to deepen and accelerate climate related reform efforts. To this end, it focuses on the following four reform areas, which will aim at creating enabling legal and institutional frameworks, help catalyze financing for climate investments, and support energy reforms. It supports our Nationally Determined Contribution (NDC) and EU accession requirements, and reflects the recommendations from the C-PIMA, Climate Policy Assessment Tool (CPAT), and the World Bank's pre-Country Climate and Development Report (pre-CCDR). Each reform area has reform measures (RMs, specified below) to be achieved by specified target dates under this program. Additionally, RSF financing will provide budget support and replace more expensive financing.

- ***Reform Area 1:*** *Adaptation and Mitigation Policy, and Disaster Risk Management.* We will strengthen the legal and institutional framework for managing climate change with a view to enhance cross-sectoral coordination and to accelerate implementation.
  - By the first review, we will: (i) adopt the Law on Climate Action enabling low carbon development and climate change resilience, and (ii) establish a National Commission on Climate Change (NCCC) under the Office of the Prime Minister, as part of the institutional arrangements for managing climate change with clear tasks and responsibilities and procedures (including regular meetings and reports) defined in the supporting government decree (**RM1**). We will share the draft law with IMF staff for review.
  - By the second review, we will: approve a Disaster Risk Management (DRM) program which (i) covers the full spectrum of the Sendai framework (disaster prevention and mitigation, preparedness, response, as well as rehabilitation and recovery), and (ii) defines an institutional framework with clearly assigned roles and responsibilities at the national and subnational level, including assigning the role for DRM coordination and strategic planning under the Office of the Prime Minister, e.g., to the NCCC (**RM2**).
  - By the fourth review, we will: develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses (**RM3**). These maps will be made available online and updated regularly.
- ***Reform Area 2:*** *Energy Sector Policies.* We are taking a comprehensive approach to energy reforms, to ensure energy efficiency and security, while promoting energy transition. Cognizant of the important role that the building sector plays with respect to GHG emissions, by mid-2024 we will design and implement a mechanism to support the energy efficient refurbishment of public and private buildings transparently through the budget. At the same time, we are advancing the energy transition by preparing the energy market and the network infrastructure to facilitate the onboarding of additional renewable resources to reach the NDC target of 27 percent of renewable energy by 2030 (from the current 24 percent). In addition, ensuring the financial viability of the sector in light of substantial infrastructure investment needs will help encouraging private investment in the sector. To avoid fiscal risks, we will carefully

sequence measures ensuring the absorptive capacity is available as new production capacity becomes available. Following cost-recovery principles and gradual phasing-out of tax expenditures, while targeting income support to the most vulnerable consumers, will be important steps in this direction.

- By the second review, we will:

  - In light of the important reform initiatives, which will require substantial infrastructure investment, determine the cost-recovery rate for the provision of electricity and natural gas (fully reflecting operational and capital cost), (i) identifying any discrepancy between tariff and so defined cost recovery, considering tax expenditures, (ii) undertake a distributional impact assessment, and (iii) close any gap by adjusting the tariff or by compensating the operating company transparently from the budget (**RM4**). We will seek support from development partners.

  - From the 2024-25 heating season onwards, in coordination with the World Bank and other development partners, and with the view to ensure that the price signals are fully preserved and incentivize efficient consumption: (i) assign the administration of payment provision from energy providers to the Ministry of Labor and Social Protection, and (ii) implement further measures to delink the provision of support under the EVRF from current energy consumption by providing targeted cash transfers to beneficiaries (**RM5**).

- By the third review, based on the results from the ongoing pilot project (supported by the UNDP) collecting information through smart meters, we will conduct a review for tariff differentiation options (e.g., day-night tariff) as a tool for managing demand fluctuations with the aim of facilitating balancing, also in light of renewable energy onboarding (**RM6**). The results and recommendations of the review will be summarized in a report.

- ***Reform Area 3:*** *Enabling Climate-Smart Infrastructure Investment and Fiscal Management*. We are committed to creating an enabling environment that promotes infrastructure investments that are green, resilient, and supportive of inclusive long-term growth. To this end, we are promoting reforms to ensure that climate implications and climate vulnerability of investment projects are considered in the design and selection of public investment projects. By reporting transparently on the allocation of public resources with respect to our climate change related policy priorities and on climate related fiscal risks, we aim to create accountability encouraging climate smart policies.

  - By the second review, we will include climate change impact and vulnerability assessment in the project appraisal (and project selection) methodologies (**RM7**). This will be done in line with the C-PIMA recommendations.

  - By the third review, we will:

    - Review and provide a written opinion of climate implications and climate vulnerabilities of projects and of the project portfolio included in the budget submission (**RM8**). The review of individual projects and the project portfolio would be part of the project appraisal and the budget processes, respectively.

- Report on: (i) climate spending allocations at the budget stage, (ii) climate related spending execution, and (iii) include climate risks assessment in the Fiscal Risks Statement, including for fiscal risk from natural disasters to public and SOE infrastructure (**RM9**).

- ***Reform Area 4:*** *Sustainable Climate Finance Mobilization and Financial Sector Resilience.* We recognize that mobilizing sustainable finance and ensuring financial sector resilience will increasingly require enhancing institutional capacity and collaboration, as well as providing guidance and developing appropriate regulations for financial sector participants. These actions will also allow correctly identifying, quantifying, monitoring, and managing climate-related risks in the financial sector participants' portfolios and informing their exposure decisions. To this end, we will work with the IFC and other partners to develop and implement a sustainable finance framework aligned with best international and EU practices.

  - By the first review, we will:

    - Establish an interagency steering committee (including the NBM, Ministry of Finance (MOF), Ministry of Economic Development and Digitalization (MOEDD), Ministry of Environment (MOE), NCFM, and Moldovan Banks Association) on sustainable and environmentally responsible finance (**RM10**).

    - Develop, adopt, and start implementing a Sustainable Finance Strategy ("Roadmap") and Action Plan for Moldova's financial sector (**RM11**).

  - By the fourth review, we will:

    - Develop an advanced draft of the Sustainable Finance Taxonomy and start the public consultation process to approve the taxonomy by December 2025 (**RM12**).

G. Economic Statistics

37. We remain committed to improve the quality of our economic statistics. Our efforts continue to be geared towards enhancing the production and dissemination of economic statistics, which remain vital for effective macroeconomic policy and decision making. To this end, we have developed the legal framework for statistical production in line with relevant EU standards, in particular to enable access to personal data from administrative and private sources for statistical purposes. In addition, we have adopted the Strategy on the Development of the National Statistical System (NSS) for 2023-2030, and the NSS Development Program for the years 2023-2026. These documents outline plans to: (i) modernize the production and dissemination of official statistics, and (ii) use of new methods to enhance the quality and accessibility of statistical data, thus meeting users' needs. We will strengthen the operational capacity of the National Bureau of Statistics (NBS), through: (i) allocating adequate human and financial resources; (ii) building new capacities and capabilities; and

(iii) augmenting the mandate of the NBS for the effective use of administrative and alternative data sources.

H. Program Monitoring

38. The ECF/EFF- and RSF-supported programs will be monitored through semi-annual reviews. The schedule of reviews has been extended for six months and one additional review is added, to ensure sufficient time to complete reform. A complete schedule of reviews is set out in the accompanying staff report. The QPCs, inflation consultation clause (ICC), and ITs have been extended to include targets through December 2024. A prior action related to the APO mandate on anti-corruption investigations has been proposed for the completion of this review. The QPCs, ICC, and ITs are set out in Table 1, as specified in the TMU attached to our Letter of Intent dated November 20, 2023. The prior action, along with the SBs, are set out in Table 2. The RSF reviews will be based on the evaluation of implementation of the RMs set out in Table 3.

Table 1. Moldova: Quantitative Performance Targets, March 2023–December 2024

	2023														2024				
	March [1]				June				September [1]				December		March [1]		June	September [1]	December
	Prog. Target CR 23/6	Adj. Target	Actual	**Status**	Prog. Target CR 23/6	Adj. Target	Actual	**Status**	Prog. Target CR 23/6	Adj. Target	Actual	**Status**	Prog. Target CR 23/6	Adj. Target	Prog. Target CR 23/152	Adj. Target	Proposed New Prog. Targets		
1. Quantitative performance criteria [1]																			
Ceiling on the cash deficit of the general government	5,130	5,130	1,971	**Met**	7,250	7,250	7,163	**Met**	10,890	10,890	8,240	**Met**	18,527	18,527	4,580	4,580	6,105	9,281	15,790
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) [2]	2,806	2,636 [5]	4,648	**Met**	2,946	2,659 [5]	4,873	**Met**	3,046	2,760 [5]	4,908	**Met**	3,146	3,146	3,300	3,300	3,538	3,776	4,014
2. Continuous performance criteria																			
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	**Met**	0	0	0	**Met**	0		0	**Met**	0	0	0	0	0	0	0
3. Indicative targets																			
Ceiling on the general government wage bill	5,640	5,640	5,467	**Met**	12,550	12,550	12,202	**Met**	18,630	18,630	17,502	**Met**	25,618	25,618	6,275	6,275	14,032	20,417	27,800
Floor on targeted social spending undertaken by the general government [3]	3,607	3,607	2,880	**Not met**	4,717	4,717	3,965	**Not met**	4,882	4,882	4,142	**Not met**	5,989	5,989	2,694	1,268	1,728	1,807	2,495
Floor on developmental spending undertaken by the general government [4]	7,530	7,530	8,568	**Met**	14,790	14,790	18,786	**Met**	22,980	22,980	29,066	**Met**	34,940	34,940	7,906	7,906	17,436	27,091	41,191
4. Inflation Consultation Bands (in percent)																			
Outer Band (upper limit)	25.0	25.0			16.0	16.0			11.5	11.5			11.0	8.0	8.0	8.0	8.0	8.0	8.0
Inner Band (upper limit)	23.5	23.5			14.5	14.5			10.0	10.0			9.5	6.5	6.5	6.5	6.5	6.5	6.5
Center point	22.0	22.0	22.0	**Met**	13.0	13.0	13.2	**Met**	8.5	8.5	8.6	**Met**	8.0	5.0	5.0	5.0	5.0	5.0	5.0
Inner Band (lower limit)	20.5	20.5			11.5	11.5			7.0	7.0			6.5	3.5	3.5	3.5	3.5	3.5	3.5
Outer Band (lower limit)	19.0	19.0			10.0	10.0			5.5	5.5			5.0	2.0	2.0	2.0	2.0	2.0	2.0

1/ Indicative targets for March 2023, September 2023, March 2024, and September 2024.

2/ The NIR target is set as specified in the TMU.

3/ Includes Energy Vulnerability Reduction Fund (EVRF), heating allowance, payments under Ajutor Social and unemployment insurance programs.

spending.

spending.

5/ In line with TMU ¶22.

Table 2. Moldova: Prior Action and Structural Benchmarks Under the ECF/EFF

	Measure	Rationale	Timeframe	Status
Prior Actions				
1	Adopt amendments to include in APO's mandate all types of corruption-related offences listed in the UN Convention against Corruption and all high-level officials defined in the Article 123(3) with the exception of officials of districts, villages, and cities.	Strengthen anti-corruption institutions		Prior action
Structural Benchmarks				
Anti-Corruption and Rule of Law				
1	To ensure that the APO operates with an independent budget in 2024, assign a separate code (level 2 of the organizational budget classification) in the registry of budgetary institutions maintained by the Ministry of Finance to include APO as a separate line item.	Strengthen anti-corruption institutions	end-June 2023	Met.
2	Adoption of the law on establishment of anti-corruption adjudication infrastructure, including a credible selection process of anti-corruption judges , which will promote appointment of persons with impeccable reputation and high professional and moral qualities.	Strengthen anti-corruption institutions	end-March 2024	Proposed new structural benchmark.
Fiscal Governance				
3	Extend the tax expenditure analyses to include excise, customs duties, and real estate tax.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end-December 2023	Met.
4	Introduce a General Anti-Avoidance Rule provision in the Tax Code to counter domestic and international abusive tax practices.	Strengthen tax administration reforms and revenue mobilization	end-September 2023	Met.
5	Implement an automated tax filling compliance program to improve on-time filing of tax returns, including by assigning penalties for late- or non-filing.	Strengthen tax administration reforms and revenue mobilization	end-December 2023	
6	Prepare a proposal identifying tax expenditures to be phased out based on cost-benefit analysis.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end- December 2024	Proposed new structural benchmark.
Financial Sector Oversight				
7	Prepare a targeted review of the BRRL and the relevant secondary legislation, in line with good practices as appropriate to Moldova and based on IMF staff recommendations, to identify shortcomings, introduce more flexibility to the MREL requirement, the conditions of access to the resolution fund, and the participation of the DGF in the financing of the resolution measures	Strengthen financial safety net	end-June 2023	Met.
8	The NCFM will adopt secondary legislation on insurance on licensing, qualified shareholders, and fit-and-proper and prudential requirements.	Facilitate implementation of the Solvency II insurance framework	end-June 2023	Met.
9	Further strengthen NBM's independence, including by presenting to Parliament a package of amendments stating derogatory provisions from the administrative procedures code to eliminate inappropriate deadlines for NBM's supervision; granting the NBM operational autonomy over its assets; and adding an explicit mandate for financial stability and macroprudential policy of the NBM.	Strengthen the institutional autonomy and governance of the NBM	end-December 2023	Proposed new structural benchmark.
10	The NBM will prepare and adopt the remaining necessary secondary legislation for Pillar II and III of Solvency II.	Facilitate implementation of the Solvency II insurance framework	end-September 2024	Proposed new structural benchmark.
11	Develop an inter-agency committee with a mandate to develop, implement, and monitor National Financial Inclusion Strategy (NFIS).	Improve financial inclusion	end-June 2024	Proposed new structural benchmark.
SOE and Regulatory Framework Reforms				
12	Complete a triage of SOEs owned by the central government, in line with the approved state-ownership strategy.	Improve SOE governance and reduce fiscal risks	end-December 2023	
13	Develop a strategy for the all the SOEs at the central government level that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks, and (ii) a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss making.	Improve SOE governance and reduce fiscal risks	end-September 2024	Proposed new structural benchmark.

Table 3. Moldova: RSF Reform Measures

	Reform Measures (RMs)	Indicative Timing	ECF/EFF Review	RSF Review
	Reform Area 1: Adaptation and Mitigation Policy, and Disaster Risk Management			
RM1	Government to: (i) adopt the Law on Climate Action enabling low carbon development and climate change resilience, and (ii) establish a National Commission on Climate Change (NCCC) under the Office of the Prime Minister, as part of the institutional arrangements for managing climate change with clear tasks and responsibilities and procedures (including regular meetings and reports) defined in the supporting government decree.	March 24, 2024	Fifth review	First review
RM2	Government to approve a Disaster Risk Management (DRM) program which (i) covers the full spectrum of the Sendai framework, and (ii) defines an institutional framework with clearly assigned roles and responsibilities at the national and subnational level, including assigning the role for DRM coordination and strategic planning under the Office of the Prime Minister, e.g., to the NCCC.	July 24, 2024	Sixth review	Second review
RM3	Government to develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses.	July 24, 2025	Eighth review	Fourth review
	Reform Area 2: Energy Sector Policies			
RM4	Ministry of Energy to determine the cost-recovery rate for the provision of electricity and natural gas (fully reflecting operational and capital cost), (i) identifying any discrepancy between tariff and so defined cost recovery, considering tax expenditures, (ii) undertake a distributional impact assessment, and (iii) close any gap by adjusting the tariff or by compensating the operating company transparently from the budget.	July 24, 2024	Sixth review	Second review
RM5	From the 2024-25 heating season onwards, in coordination with the World Bank and other development partners, and with the view to ensure that the price signals are fully preserved and incentivize efficient consumption: (i) assign the administration of payment provision from energy providers to the Ministry of Labor and Social Protection, and (ii) implement further measures to delink the provision of support under the EVRF from current energy consumption by providing targeted cash transfers to beneficiaries.	July 24, 2024	Sixth review	Second review
RM6	Based on the results from the ongoing pilot project collecting information through smart meters, Ministry of Energy to conduct a review for tariff differentiation options (e.g., day-night tariff) as a tool for managing demand fluctuations with the aim of facilitating balancing, also in light of renewable energy onboarding.	January 24, 2025	Seventh review	Third review
	Reform Area 3: Enabling Climate-Smart Infrastructure Investment and Fiscal Management			
RM7	Government to include climate change impact and vulnerability assessment in the project appraisal (and project selection) methodologies.	July 24, 2024	Sixth review	Second review
RM8	Ministry of Environment to review and provide a written opinion of climate implications and climate vulnerabilities of projects and of the project portfolio included in budget submissions.	January 24, 2025	Seventh review	Third review
RM9	Ministry of Finance to: (i) report on climate spending allocations at the budget stage, (ii) report on climate related spending execution, and (iii) include climate risks assessment in the Fiscal Risks Statement, including for fiscal risk from natural disasters to public and SOE infrastructure.	January 24, 2025	Seventh review	Third review
	Reform Area 4: Sustainable Finance Mobilization and Financial Sector Resilience			
RM10	Establish an interagency steering committee (including the NBM, MOF, MOEDD, MOE, NCFM, and Moldovan Banks Association) on climate finance.	March 24, 2024	Fifth review	First review
RM11	The NBM to develop, adopt, and start implementing a Sustainable Finance Strategy ("Roadmap") and Action Plan for Moldova's financial sector.	March 24, 2024	Fifth review	First review
RM12	The NBM to develop an advanced draft of the Sustainable Finance Taxonomy and start the public consultation process, to approve the taxonomy by December 2025.	July 24, 2025	Eighth review	Fourth review

Source: IMF Staff

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative targets (prior actions, performance criteria and indicative benchmarks) established in the Memorandum of Economic and Financial Policies (MEFP) and describes the methods to be used in assessing the program performance with respect to these targets.

A. Quantitative Program Targets

2. The program will be assessed through performance criteria and indicative targets. Performance criteria are set with respect to:

- the floor on the net international reserves (NIR) of NBM;
- the ceiling on the cash deficit of the general government;
- the ceiling on accumulation of external payment arrears of the general government (continuous).

Indicative targets are set on:

- the ceiling on the general government wage bill;
- the floor on targeted social assistance spending undertaken by the general government;
- the floor on developmental spending undertaken by the general government.

In addition, the program will include a consultation clause on the 12-month rate of inflation.

B. Program Assumptions

3. For program monitoring purposes, all foreign currency-related assets will be valued in U.S. dollars at program exchange rates. The program exchange rate of the Moldovan leu (MDL) to the U.S. dollar has been set at 17.6627/US$ (the official rate as of September 30, 2021). Gold holdings will be valued at US$1,801.50 per troy ounce, the average price during January-September 2021 obtained from the IMF website on primary commodity prices. [1] Assets and liabilities denominated in SDRs and in foreign currencies other than the U.S. dollar will be converted into U.S. dollars at their respective exchange rates of September 30, 2021, as reported in the following table.

[1] https://www.imf.org/en/Research/commodity-prices.

Program Exchange Rates for ECF-EFF Arrangements
(as of September 30, 2021)

Exchange Rate	Program Rate
U.S. dollar / Euro	1.1579
U.S. dollar / Swiss franc	0.9365
U.S. dollar / Pounds sterling	1.3435
U.S. dollar / Japanese yen	111.9100
U.S. dollar / Australian dollar	0.7206
U.S. dollar / Canadian dollar	1.2741
U.S. dollar / Chinese renminbi	6.4634
U.S. dollar / Russian ruble	72.6642
U.S. dollar / SDR	0.7098

Source: https://www.imf.org/external/np/fin/data/param_rms_mth.aspx

C. Institutional Definitions

4. The **general government** is defined as comprising the central government and local governments. The **central government** includes the state budget (including foreign-financed projects), state social insurance budget, and health insurance budget. The **local governments** include the local budgets (including foreign-financed projects). No new special or extrabudgetary funds will be created during the program period. Excluded from this definition are any government-owned entities with a separate legal status.

D. Program Definitions

5. NIR of the National Bank of Moldova (NBM) are defined as gross reserves in convertible currencies minus reserve liabilities in convertible currencies[2].

- For program monitoring purposes, **gross reserves** of the NBM are defined as readily available external assets that are controlled by the NBM for meeting balance of payments financing needs and for intervention in exchange markets. They include monetary gold, holdings of SDRs, reserve position in the Fund, and holdings of foreign exchange in convertible currencies that are readily available for intervention in the foreign exchange market or in the securities issued by sovereigns, IFIs and agencies, with a minimum credit rating for such securities of AA- and deposits in counterparts with a minimum rating of A-.[3] Excluded from reserve assets are capital subscriptions to foreign financial institutions, long-term non-financial assets, funds disbursed by

[2] For these purposes, convertible currencies include the Euro, Chinese Renminbi, Japanese Yen, Pound Sterling, U.S. Dollars, Swiss Franc, and the Australian and Canadian Dollars.

[3] The credit rating shall be established by applying the average of ratings by international rating agencies (Fitch, Moody's and Standard and Poor's).

international institutions and foreign governments assigned for on-lending and project implementation, assets in non-convertible currencies, NBM's claims on resident banks and nonbanks, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets (futures, forwards, swaps, and options).

- **Reserve liabilities of the NBM** are defined as use of Fund credit by the NBM, convertible currency liabilities of the NBM to nonresidents with an original maturity of up to and including one year, and convertible currency liabilities of the NBM to residents, excluding to the general government and the mandatory FX reserves of domestic banks in the NBM. Liabilities arising from use of Fund credit by the NBM do not include liabilities arising from the use of SDR allocation.

6. For program monitoring purposes, the stock of reserve assets and reserve liabilities of the NBM shall be valued at program exchange rate, as described in paragraph 3 above. The data source for gross reserves and liabilities is the Monetary Survey published by NBM in Moldovan Lei, from which the adjustments for program purposes are made. On this basis, and consistent with the definition above, the stock of NIR of the NBM amounted to US$ 3708.75 million as of September 30, 2021.

7. For the purposes of calculating the cash deficit of the general government, **net domestic credit of the banking system** (NBM and commercial banks) to the general government is defined as outstanding claims of the banking system on the general government (exclusive of the claims associated with accrued interest, tax and social contribution payments by commercial banks, and foreign financed on-lending by banks), including overdrafts, direct credit and holdings of government securities, less deposits of the general government (excluding accrued interest on government deposits, and including the accounts for foreign-financed projects).[4] This definition will also exclude the securities issued under Law 235/2016 on the issuance of government bonds for execution of Ministry of Finance's payment obligations derived from the State Guarantees Number 807 of November 17, 2014 and Number 101 of April 1, 2015.

8. Monitoring of this definition will be based on NBM's monetary survey and Treasury data. The Ministry of Finance will provide data on foreign-financed projects and balances in all other adjustment accounts. On this basis, and consistent with the definition above, the stock of the net domestic credit of the banking system shall be measured from below the line and as of September 30, 2021, amounted to MDL 8479.3 billion.

9. The **ceiling on the cash deficit of the general government** is defined, as the sum of net credit of the banking system to the general government (as defined in paragraph 7), the general government's net placement of securities outside the banking system, other net credit from the

[4] For the calculation of the net credit of the banking system to general government the following accounts will be excluded: 1711, 1712, 1713, 1731, 1732, 1733, 1735, 1761, 1762, 1763, 1801, 1802, 1805, 1807, 2264, 2709, 2711, 2717, 2721, 2727, 2732, 2733, 2796, 2801, 2802, 2811, 2820 and the group of accounts 2100.

domestic non-banking sector to the general government, the general government's receipt of disbursements from external debt for direct budgetary support and for project financing minus amortization paid, and privatization proceeds stemming from the sale of the general government's assets. The deficit is cumulative from the beginning of a calendar year and will be monitored from the financing side at the current exchange rate established by the NBM at the date of transaction.

10. Government securities in the form of coupon-bearing instruments sold at face value will be treated as financing items in the fiscal accounts, in the amount actually received from buyers. On redemption date, the sales value (face value) will be recorded as amortization, and the coupon payments will be recorded as domestic interest payments.

11. Definition of debt, for the purposes of the TMU, is set out in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), and also includes contracted or guaranteed and non-guaranteed commitments for which value has not been received. For program purposes, the term "debt" is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take several forms; the primary ones being as follows:

i. Loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchange of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the loan funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. Suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. Lease agreements, that is, arrangements under which the lessee is allowed to use a property for a duration usually shorter than that of the life of the property in question, but without transfer of ownership, while the lessor retains the title to the property. For the purposes of this guideline, the debt is the present value (at the inception of the lease) of all the lease payments expected for the period of the agreement, except payments necessary for the operation, repair, and maintenance of the property.

12. For purpose of the program, the **guarantee** of a debt arises from any explicit legal obligation of the general government or the NBM or any other agency acting on behalf of the general government to service such a debt in the event of nonpayment by the recipient (involving payments in cash or in kind), or from any implicit legal or contractual obligation to finance partially or in full any shortfall incurred by the debtor. As a result, on-lending from external creditors to SOEs is treated as public guarantee (and hence, for the purpose of the program, is monitored explicitly from above-the-deficit line). On the other hand, on-lending from external creditors to the private sector through commercial banks—which are collateralized and of which credit risks from the final borrower are explicitly borne by the commercial banks—are treated as contingent liabilities.

13. For the purposes of the program, **external payments arrears** will consist of all overdue debt service obligations (i.e., payments of principal or interest, taking into account contractual grace periods) arising in respect of any debt contracted or guaranteed or assumed by the central government, or the NBM, or any agency acting on behalf of the central government. The **ceiling on accumulation of external payments arrears** shall apply on a continuous basis throughout the period of the arrangement. It shall not apply to external payments arrears arising from external debt being renegotiated with external creditors, including Paris Club creditors; and more specifically, to external payments arrears in respect of which a creditor has agreed that no payment needs to be made pending negotiations. For the purposes of this performance criterion, nonpayment of external debt service to Russia will not give rise to arrears when the Central Government and the NBM cannot pay or settle based on the contractual terms solely due to factors outside the debtor's control (e.g. the transfer of funds being rejected owing to intermediary financial institutions' compliance policies, sanctions or inability to identify the counterparty), as long as the debt service payments have been paid in full into an escrow account[5] held by a third-party by the contractual due date, taking into account any contractual grace period. Funds in such escrow accounts will be used only to satisfy the related external debt obligations, and their use or withdrawal for other purposes would constitute a breach of the PC.

14. The **general government wage bill** will be defined as sum of budget spending on wages and salaries of public sector employees—according to economic budgetary classification, including but not limited to employer pension contributions and other social security contributions, and other remunerations (such as bonus payments). This definition of the general government wage bill is in line with current spending reported in line "Wages" of the general government budget according to the program classification of the annual budget except for salaries of SOEs and health care providers that are compensated from the Health Insurance Fund (FAOAM) itself.[6]

15. The **targeted social assistance spending undertaken by the general government** is defined as the sum of support for unemployment (9012/00322, 9012/0052, 9008/00519, and 9019/0052), the *Ajutor Social* (social assistance program 9015/00320), the Energy Vulnerability Reduction Fund (9019/00529), as well as the heating allowance during the cold season and the government's energy poverty policy (9015/00322) from the central government budget.

[5] In Moldova's legal framework defined as a "designated account to cover arrears".

[6] For the calculation of the total general government wage bill the following accounts for central government, local government, and special funds from the Treasury system in the Ministry of Finance will be used: category 210000 personnel expenditure.

16. **Developmental spending undertaken by the general government** is defined as the sum of total capital spending envelop in the annual budget (including foreign-financed projects) and current spending in the areas of health and education (COFOG Functions 07 and 09).

E. Inflation Consultation Mechanism

17. **The monetary conditionality will include a set of quarterly inflation targets measured as the inflation of the headline consumer price index** (CPI) published by the Moldovan National Bureau of Statistics set within tolerance bands. The inner band is specified as ±1.5 percentage point around the central point. The outer band adds an additional ±1.5 percentage point to the inner band. Deviations from the bands would trigger a consultation with the staff or Executive Board which would focus on: (i) a broad-based assessment of the stance of monetary policy and whether the Fund-supported program is still on track; and (ii) the reasons for program deviations, taking into account compensating factors and proposed remedial actions if deemed necessary.

18. **Should the observed year-on-year rate of CPI inflation fall outside the inner bands specified for the end of each quarter (text table)**, the NBM will consult with IMF staff on the reasons for the deviation and the proposed policy response. Should the observed year-on-year rate of CPI inflation fall outside the outer bands specified for the end of each quarter (text table), the authorities will consult with IMF Executive Board on the reasons for the deviation and the proposed policy response before further purchases could be requested under the ECF/EFF.

Inflation Consultation Bands

	2023				2024			
	March	June	September	December	March	June	September	December
Outer Band (upper limit)	25.0	16.0	11.5	8.0	8.0	8.0	8.0	8.0
Inner Band (upper limit)	23.5	14.5	10.0	6.5	6.5	6.5	6.5	6.5
Center point	**22.0**	**13.0**	**8.5**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Inner Band (lower limit)	20.5	11.5	7.0	3.5	3.5	3.5	3.5	3.5
Outer Band (lower limit)	19.0	10.0	5.5	2.0	2.0	2.0	2.0	2.0

F. Adjusters

19. **The adjusters set in this TMU apply for assessing compliance with the program's quantitative targets starting from end-June 2022.**

20. The **ceiling on the cash deficit** of the general government will be increased by the amount paid in cash for the purposes of maintaining the financial sector stability or by the face value of government securities issued for the same purpose.

21. The **ceiling on the cash deficit of the general government** will be adjusted upward—that is, the deficit target will be increased—by the amount of any shortfall between the total amount of actually disbursed and programmed budget support from external donors, including MFA (grants) from the European Commission.

22. The **floor on NIR** of the NBM will be lowered by any shortfall in the official external grants and loans up to the equivalent of US$681.0 million and US$277.9 million in 2023 and 2024, respectively, valued at the program exchange rates.

Programmed External Financing Flows 1/
(Cumulative from the beginning of the calendar year)

	2023				2024			
	March 2/	June	September 2/	December	March 2/	June	September 2/	December
	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target
Programmed external financing flows to adjust the floor on the NIR target (US$ million)	170	341	511	681	117	157	212	278
Programmed external financing flows to adjust the ceiling on the cash deficit (MDL million)	3,505	7,010	10,515	14,020	1,487	2,973	4,460	5,946

1/ Excluding IMF financing.
2/ Indicative targets for March and September.

G. Reporting Requirements

23. **Macroeconomic data** necessary for assessing compliance with performance criteria and indicative targets and benchmarks will be provided to Fund staff including, but not limited to data as specified in this memorandum as well as in Table 1. The authorities will transmit promptly to Fund staff any data revisions.

Table 1. Moldova: Data to be Reported to the IMF	
Item	**Periodicity**
Fiscal data (to be provided by the MoF)	Monthly, within three weeks of the end of each month
General budget operations for revenues, expenditure, and financing (economic and functional classifications)	
General government wage bill at the level of budgets (state budget, local budgets, Social Insurance Fund and Health Insurance Fund) and functional groups	Monthly, within three weeks of the end of each month
Detailed breakdown of salaries of all SOEs and JSCs, by company.	Annually (2019, 2020 and 2021), and quarterly starting Q1 2022
Number of budgetary sector positions and employees at the level of budgets (state budget, local budgets, Social Insurance Fund and Health Insurance Fund) and functional groups	Monthly, within four weeks of the end of each month
Social expenditure including pensions, support for unemployment, the *Ajutor Social* (social assistance program), heating allowance for the cold season, and health expenditures from the Health Insurance Fund.	Monthly, within three weeks of the end of each month
Public and publicly guaranteed domestic debt, by instrument, and creditor: - Central government domestic debt - Local government domestic debt	 Monthly, within three weeks of the end of each month Quarterly, within six weeks of the end of each quarter
Debt stock outstanding for all SOEs and JSCs, by company (to be provided by the PPA)	Annually (2019, 2020 and 2021), and quarterly starting Q1 2022
Domestic arrears, by creditor	Monthly, within three weeks of the end of each month
Arrears outstanding for all SOEs and JSCs, by company (to be provided by the PPA)	Annually (2019, 2020 and 2021), and quarterly starting Q1 2022
Onlending to SOEs by type of onlending projects and by external creditors (including loan disbursements and repayments).	Monthly, within three weeks of the end of each month
Breakdown of the borrowing by SOEs and JSCs, between the external project loans that are on-lent (transferred) directly from the budget (central government) to local authorities / line ministries, and other borrowing from commercial banks.	Monthly, within three weeks of the end of each month

Table 1. Moldova: Data to be Reported to the IMF (continued)

Monetary data (to be provided by the NBM)	Weekly, within one week of the end of each week
Monetary survey of the NBM	
Monetary survey for the whole banking system	Weekly, within two weeks of the end of each week
Net claims on general government (NBM and commercial banks)	Weekly, within two weeks of the end of each week
Financial position of commercial banks, including balance sheets, income statement, banking regulation indicators, capital, liquidity, data on credits and deposits (NBM)	Monthly, within four weeks of the end of each month
Foreign exchange operations (NBM data)	Monthly, within two weeks of the end of each month
Foreign exchange cash flows of NBM	Monthly, within two weeks of the end of each month
Foreign exchange market data (volume of trades, interventions, exchange rates)	Daily, within 12 hours of the end of each day
NBM's sterilization operations	Weekly, within one week of the end of each week
• liquidity conditions in the foreign exchange market and banks' ability to maintain open foreign exchange positions • volatility of the MDL exchange rate against foreign currencies • gap between the rates of purchasing and selling MDL against the US dollar in the domestic foreign exchange market • change in the exchange rates of MDL against the US dollar quoted by foreign exchange offices • daily change in net opened currency position in all currencies, in total by banking system • •interbank market volatility	Daily data to be provided once every month, within 10 days of the end of each month.
Balance of Payments (to be provided by the NBM)	One quarter after the end of the previous quarter
Current, capital, and financial account data.	
Transfers of individuals from abroad through the banking system	Monthly, within six weeks of the end of each month

Table 1. Moldova: Data to be Reported to the IMF (concluded)

External debt data (to be provided by MoF)	
Information on all new external loans contracted by the general government or guaranteed by the government.	Monthly, within three weeks of the end of each month
Total public and publicly guaranteed outstanding debt stock, outstanding debt service due, and debt service paid, by creditor (in line with the new Debt Template titled "Decomposition of Public Debt and Debt Service by Creditor" (shared with the Debt Department at MoF).	Quarterly, within six weeks of the end of each quarter
Disbursements of grants and loans by recipient sector (state/local/SOEs), and by creditor	State: Monthly, within three weeks of the end of each month Local/SOEs: Quarterly, within three weeks of the end of each quarter
Other data (to be provided by NBS, unless otherwise stated)	
Overall consumer price index.	Monthly, within two weeks of the end of each month
National accounts by sector of production, in nominal and real terms.	Quarterly, within three months of the end of each quarter
Export and import data on value, volume, and unit values, by major categories and countries.	Monthly, within two months of the end of each month
Detailed financial performance of all state-owned enterprises and joint stock companies operating at the central government level, in line with the agreed input template (from the Public Property Agency).	Annual, within two months following the end of each year (unaudited), and no later than 6 months following the end of each year (audited).

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

November 21, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FACILITY ARRANGEMENTS, REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENTS, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA).

Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Low
Overall risk of debt distress	Moderate
Granularity in the risk rating	Not applicable
Application of judgment	No

The Debt Sustainability Analysis (DSA) assesses Moldova at low risk of external debt distress and at moderate risk of overall public debt distress, unchanged from the December 2022 DSA.[1]Moldova's public debt is considered sustainable with current debt carrying capacity assessed as strong.[2] This is despite the increased financing needed to mitigate the economic and humanitarian fallout of Russia's invasion and war in Ukraine and projected medium-term developmental spending needs. Overall, the public debt trajectory remains vulnerable to risks, particularly from shocks to real GDP growth, calling

[1] The previous DSA, dated December 19, 2022, accompanied Moldova's Staff Report for the second review under the ECF/EFF program, IMF Country Report No. 23/006.

[2] Moldova's Composite Indicator (CI) index, based on the October 2023 WEO update and the WB's 2022 Country Policy and Institutional Assessment (CPIA), indicates that the country's debt carrying capacity remain strong (3.07).

for broadening growth drivers, sustaining reform momentum, and remaining committed to prudent fiscal policy under the ECF/EFF program, while reducing longer-term risks stemming from climate change through the new RSF. In addition, improving governance, enhancing effectiveness of public spending, and strengthening management of fiscal risks, including from SOEs, are priorities to contain public debt vulnerabilities, as well as reducing vulnerabilities to extreme weather events and energy shocks.

PUBLIC DEBT COVERAGE

1. Moldova's public debt includes obligations of the public sector (central government, local authorities, and public entities). Public debt includes external and domestic obligations, including arrears to suppliers and guaranteed debt. Domestic debt includes debt of state and municipal enterprises, companies with full or majority public ownership, and of local public authorities with maturity of a year and above, as stipulated in Law No. 419 (2006) on Public Sector Debt, State Guarantees and State On-lending.[3]

2. Debt contracted by the central government and central bank owed to the IMF is covered.[4] Debt coverage is on residency basis.

Text Table 1. Moldova: Public Debt Coverage

Public Debt Coverage

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

Public Debt Coverage and the Magnitude of the Contingent Liability Tailored Stress Test

1	The country's coverage of public debt	The central, state, and local governments plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	10	
	Total (2+3+4+5) (in percent of GDP)		12.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

[3] PPG debt covers gross debt of the general government. SOE debt in Moldova is primarily driven by externally financed project loans that are on-lent by the central government to SOEs. Both on-lending to the private sector (operationalized through commercial banks) and to SOEs are part of public guarantees and are included in the central government debt. Non-guaranteed SOEs debt is also included in the public debt. Debt of SOEs with maturity longer than a year accounts for about 2 percent of GDP as of 2022. The authorities will continue to take concrete steps towards expanding debt coverage for local governments' debt, SOEs and PPPs to include all existing debt obligations. Due to the lack of data, information on PPPs is currently limited. The change in coverage complicates intertemporal analysis of PPG debt. The contingent liabilities shock from SOE debt is set at the default value of 2 percent of GDP to reflect risks associated with borrowing of SOEs majority owned by the state, while a contingent liability shock of 12 percent of GDP is meant to also capture risks from PPPs and SOEs that are partially owned by the state.

[4] Includes obligations on the SDR allocation in 2021 (about US$236 million).

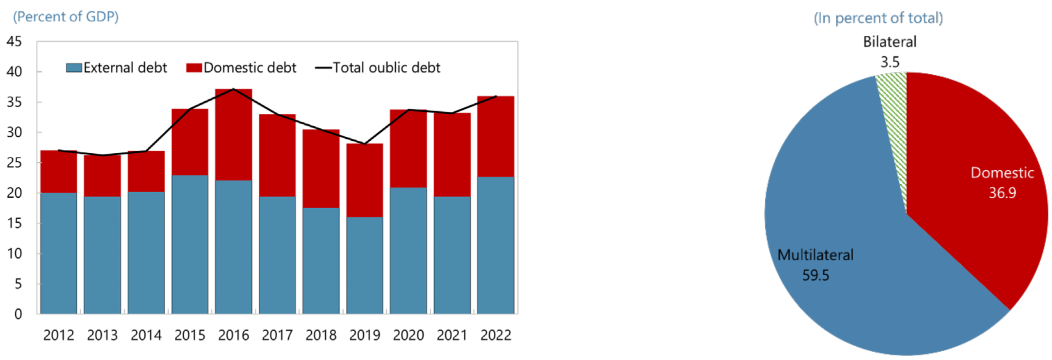
BACKGROUND ON DEBT

3. **Public and publicly guaranteed (PPG) debt increased in 2022 to 36.4 percent of GDP, up from 34.6 percent of GDP in 2021.** PPG debt peaked at 37 percent in 2016, up from 27 percent of GDP in 2010. A key driver of the increase was issuance of a state guarantee to the NBM to provide emergency liquidity to the banking sector. It was then on a downward trend until 2019. However, in 2020, COVID-induced borrowing pushed up public debt, driven by increases in both domestic and external debt (Table 1)[5], while shocks in 2022 related to Russia's war in Ukraine and subsequent policy response led to an increase of 2.8 ppt. Both PPG and private external debt levels are expected to continue to rise modestly this year, reflecting continued borrowing from multilateral and official bilateral creditors and an increase in trade credit and advances. Currently, nearly 60 percent of PPG debt is from multilateral institutions, while just over a third is PPG domestic marketable debt, split between long-term debt securities and T-bills. Other domestic marketable debt is mainly short-term and held by the banking system.

Text Figure 1. Public and Publicly Guaranteed Debt

Evolution of Public Debt, 2010–2022 at end-June 2023

Composition of Public Debt Stock



Sources: IMF WEO and IMF staff calculations.

4. **Moldova's gross external debt increased by nearly three percent of GDP in 2022 from 63.3 percent of GDP in 2021, but remains below the 2020 level of 70 percent of GDP.** In 2022, PPG external debt increased over 3 percentage points of GDP from 2021 of just over 19 percent of GDP, reflecting increased support from multilateral institutions in response to the 2022 shocks. A reduction of gross total external debt during 2016–19 largely reflected a decline in private external debt, which at above 40 percent of GDP since 2010, remains relatively elevated compared to peers. The strong appreciation of the nominal exchange rate by about 14 percent during this period also contributed to the reduction in gross external debt. The decline in private sector debt during this period was also due to a decrease in overseas borrowing by the banking sector, reflecting the aftereffects of the banking crisis in 2014. While gross total external debt in Moldova is sizable at 66.2 percent of GDP in 2022, about one-third of the private debt is

[5] Although eligible, Moldova did not participate in the 2020–21 Debt Service Suspension Initiatives.

liabilities to direct investors (Moldovan foreign-owned companies borrowing from their parent companies abroad). Short-term debt of the non-bank sector is high as well, over one-third of non-bank debt, and consists of trade credits, advances, and other debt liabilities, mostly for the import of natural resources.

Table 1. Moldova: Decomposition of Public Debt and Debt Service by Creditor [1/]

(Millions of U.S. dollars, unless otherwise indicated)

	Debt Stock (end of period)			Debt Service Due		Debt Service	
	6/30/2023			01.01.2023-30.06.2023	6/30/2023	01.01.2023-30.06.2023	6/30/2023
		(Percent total debt)	*(Percent GDP)*		*(Percent GDP)*		*(Percent GDP)*
Total	5666.3	100.0	33.9	1100.5	6.6	1079.5	6.5
External	3573.4	63.1	21.4	152.3	0.9	137.3	0.8
Multilateral creditors[2,3]	3372.4	59.5	20.2	133.2	0.8	133.2	0.8
IMF	1123.6	19.8	6.7				
World Bank	933.8	16.5	5.6				
ADB/AfDB/IADB		0.0	0.0				
Other Multilaterals	1315.0	23.2	7.9				
o/w: list largest two creditors	929.5	16.4	5.6				
EBRD	486.8	8.6	2.9				
EIB	442.7	7.8	2.6				
list of additional large creditors	234.9	4.1	1.4				
EU	234.9	4.1	1.4				
Bilateral Creditors[2]	201.0	3.5	1.2	19.1	0.1	4.1	0.0
Paris Club	178.7	3.2	1.1	18.9	0.1	4.0	0.0
o/w: list largest two creditors	131.1	2.3	0.8				
AFD	81.9	1.4	0.5				
JICA	49.2	0.9	0.3				
list of additional large creditors	0.0	0.0	0.0				
Non-Paris Club	22.3	0.4	0.1	0.1	0.0	0.1	0.0
o/w: list largest two creditors	22.3	0.4	0.1				
Government of Poland	22.3	0.4	0.1				
list of additional large creditors	0.0	0.0	0.0				
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0				
list of additional large creditors	0.0	0.0	0.0				
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0				
list of additional large creditors	0.0	0.0	0.0				
Domestic	2092.9	36.9	12.5	948.2	5.7	942.2	5.6
Held by residents, total	2092.4	36.9	12.5	948.2	5.7	942.2	5.6
Held by non-residents, total	0.5	0.0	0.0				
T-Bills	1152.2	20.3	6.9	882.1	5.3	882.1	5.3
Bonds	865.7	15.3	5.2	36.2	0.2	36.2	0.2
Loans*	75.0	1.3	0.4	29.9	0.2	23.9	0.1
Memo items:	95.7	1.7	0.6				
Collateralized debt[4]	n/a	n/a	n/a				
o/w: Related	n/a	n/a	n/a				
o/w: Unrelated							
Contingent liabilities	95.7	1.7	0.6	24511.6	0.0	0.0	0.0
o/w: Public guarantees	95.7	1.7	0.6	24511.6	0.0	0.0	0.0
o/w: Other explicit contingent liabilities[5]	n/a	n/a	n/a				
Nominal GDP	16729.7						

1/As reported by Country authorities according to their classification of creditors, including by official and commercial.

2/Some public debt is not shown in the table due to confidentiality clauses or capacity constraints.

3/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

* Debt service projection does not include data on interest payment on SOE and local authorities contracts

MACROECONOMIC OUTLOOK

5. **Macroeconomic assumptions underlying the projections are consistent with the baseline in the Fourth Review of the ECF/EFF-supported program.** The main changes relative to the previous DSA of December 2022 include a more than a doubling of the 2023–2028 annual inflation (primarily reflecting a higher peak in inflation due to the shocks in 2022). In addition, the non-interest current account deficit is now wider, reflecting the worse than anticipated outcome in 2022 and subsequent slower improvement in the current account deficit over the medium term. Additional financing has mostly been on concessional

terms. Other long run macroeconomic assumptions remain broadly unchanged. Economic performance is expected to remain solid over the medium term, with steady growth, moderate inflation, and a gradual narrowing of the current account deficit. Risks to the near-term outlook are significant and tilted to the downside as Moldova continues to grapple with persistent external and domestic headwinds.

- **Real GDP.** A gradual recovery is projected in the near term. The economy is expected to pick up in 2023H2, with growth projected at 2 percent in 2023 and 3.9 percent in 2024. Though high frequency and economic sentiment indicators suggest still weak domestic demand in 2023H2 reflecting inflation and uncertainty related to the war in Ukraine. A moderate recovery is expected in 2024 as real wages and remittances slowly recover (with inflation expected to fall within the target band, while slower-than-expected growth in the EU may delay full recovery of remittances). Agricultural production is also expected to pick up in 2023H2 with a good harvest following the drought and support growth. In addition, upward growth revision of Moldova's main trade partners in 2023 and 2024 will boost the external trade balance and support growth, with a continued acceleration in growth to 5 percent in the medium-term.

- **Inflation.** Inflation has decelerated faster than anticipated since the start of the year and is expected to fall within the NBM's target by end-2023. Headline inflation fell to 8.6 percent in September 2023, from a peak of 34.3 percent in October 2022, driven by a sharp decline in food and fuel prices as global prices receded and as agricultural production gradually recovered from the drought in 2022, amid a tighter monetary policy response than in peer countries due to more acute pressures. Core inflation has also declined to 6.1 percent in September.

- **Fiscal.** Revenues and expenditures have both been lower than expected, although weaker revenue collection has been more than offset by expenditure under-execution. As such, the fiscal deficit is projected at 5 percent of GDP in 2023, 1 percentage point lower than expected. Recent data suggest revenue will be 1.5 percent of GDP lower than in the approved budget, reflecting VAT collection shortfalls due to lower-than-expected imports and lower consumption tax collections. On the expenditure side, transfers to households saw about 25 percent savings in the Energy Vulnerability Reduction Fund (EVRF), due to lower international energy prices and favorable weather. Under-execution of goods and services was mostly at the local level reflective of disbursement in investment projects, which will close at 3.1 percent of GDP in 2023. External grants are in line with end-year projections at 2.3 percent of GDP. The medium-term budget framework envisages deficit reduction to 3.1 percent of GDP by 2027. Tax policy and revenue administration reforms will help improve revenue mobilization, including preparation of cost-benefit analyses to phase out tax expenditures and reform of tax audit processes.

- **External sector.** The current account deficit worsened to 17.2 percent of GDP in 2022, from over 12 percent of GDP in 2021, reflecting a significant decline in net remittances and worker's compensation (due to impacts stemming from the war in Ukraine, including larger private outflows in early 2022 than normal and disruptions to Moldovan workers in countries affected by the war) and a more than doubling of the energy import bill. The current account deficit is expected to improve to 12 percent of GDP in 2023 due to a recovery in personal transfers, lower imports, and continued strong services exports, before narrowing to 9.5 percent of GDP by 2028 as the initial effects of the war in Ukraine reverse and the overvaluation of the leu is reduced. Despite the pandemic and the major impact felt on Moldova by the war in Ukraine, the leu has continued to strengthen as the impact of both shocks fades. At end-December 2022, gross international reserves stood at just under $4.5 billion, up from $3.9 billion in 2021, comprising over 180 percent of the Fund's composite reserve adequacy metric. Gross international reserves are expected to increase further in 2023 and beyond as remittances and other income flows recover, ensuring reserve adequacy at 4.7 months of imports over the medium-term.

- **External borrowing.** The DSA assumes that contracted but undisbursed concessional loans will be fully disbursed over the medium-term as planned by the authorities. Commercial borrowings, with Moldova having graduated from IDA-eligible borrowing in 2021, are projected to rise over the longer term to finance the country's high development needs. This plays a key role in the DSA.[6] However, Moldova will continue to benefit from significant concessional and grant financing in the medium-term, driven in large part by the profile of the new concessional borrowing. In the short-term, the external financing need—estimated at about $883 million in 2023—will be fully covered by the WB's Development Policy Operation (DPO) ($221 million), the European Union ($197 million), other development partners (about $253 million), and augmented ECF/EFF disbursements of about $218 million, all of which are to be disbursed for budget support.[7] In 2024, an external financing gap of $548 million will be financed by IMF disbursements (around $270 million) under the ECF/EFF program, along with disbursements from the IBRD, the EU, and other development and bilateral partners.

- **The public debt-to-GDP ratio is expected to increase modestly in 2023–25 with an increase in domestic and external borrowing.** An increase in public debt reflects financing needs to mitigate the economic and humanitarian spillovers of Russia's war in Ukraine, while also responding to rising energy cost and food prices. In 2023, external debt is envisaged to increase slightly, before rising to just over 70 percent of GDP in 2024. Domestic borrowing is assumed to be balanced in 2023 with significant financing coming from external sources. Demand for government securities is expected to improve from 2025 onwards. The weighted average interest rate on short-term debt is assumed to be around 7 percent in 2023, continuing the reversal in yields that spiked in 2022, and is projected to remain there over the medium term.

6. The debt sustainability framework's realism tools suggest that the baseline projections are reasonable (Figures 3 and 4). There are small deviations in the evolution of the projection of external and PPG debt to GDP ratios for the current and previous DSA vintages, and from the DSA from the 5 years past. In terms of projections, the current DSA deviates from the previous DSA mainly due to the incorporation of revised macroeconomic and borrowing assumptions. For the **external public debt**, projected debt

[6] While this assumption is not based on concrete borrowing plans in the longer-term, it reflects the baseline assumptions, under which Moldova will continue to borrow into the future to finance productive infrastructure investments.

[7] The authorities also received a new SDR allocation of about $236 million (SDR 165.3 million) in 2021, which was channeled for budget support.

ratios are slightly higher in the near term, reflecting increased donor support. The increase in the **overall external debt ratio** relative to the five-year historical change is due mostly to exchange rate movements, changes in the growth path, other residuals, and developments in the current account and FDI.[8] For the **total public debt**, the moderation in the projected debt ratios to GDP in the medium term is driven mainly by stronger growth, whereas the increase compared to the five-year historical debt ratios was due to wider primary deficits. Growth is expected to rebound in 2023 to 2 percent and to reach an average of 5 percent in the medium-term. The projected 3-year adjustment in the primary deficit is similar to those observed in historical data from peers with Fund-supported programs (Figure 4) and is consistent with the authorities' commitment with continued fiscal consolidation.

Text Table 2. Moldova: Key Macroeconomic Assumptions
(DSA December 2023 vs DSA December 2022)

	2020-2022	2023-2028	2029-2033	2023-33
Real GDP growth (percent)				
Curent DSA	0.2	4.3	5.0	4.6
Previous DSA	1.4	4.3	5.1	4.7
Inflation (GDP deflator, in US dollar terms)				
Curent DSA	7.7	3.8	1.9	3.0
Previous DSA	5.7	1.3	1.9	1.6
Total Revenue (percent of GDP)[1]				
Curent DSA	31.2	32.1	33.7	32.8
Previous DSA	31.1	31.8	32.6	32.1
Current Account Deficit (non-interest, in percent of GDP)				
Curent DSA	11.8	9.3	6.0	7.8
Previous DSA	10.3	8.6	6.1	7.5

Source: Moldova authorities and Staff calculations.
[1] Total revenue, excluding grants.

7. **The debt sustainability framework's realism tools suggest that the baseline projections are reasonable (Figures 3 and 4).** There are small deviations in the evolution of the projection of external and PPG debt to GDP ratios for the current and previous DSA vintages, and from the DSA from the 5 years past. In terms of projections, the current DSA deviates from the previous DSA mainly due to the incorporation of revised macroeconomic and borrowing assumptions. For the **external public debt**, projected debt ratios are slightly higher in the near term, reflecting increased donor support. The increase in the **overall external debt ratio** relative to the five-year historical change is due mostly to exchange rate movements, changes in the growth path, other residuals, and developments in the current account and FDI.[9] For the **total public debt**, the moderation in the projected debt ratios to GDP in the medium term is driven mainly by stronger growth, whereas the increase compared to the five-year historical debt ratios was due to wider

[8] The relatively large residuals in external financing mainly reflect a change in the private sector debt.

[9] The relatively large residuals in external financing mainly reflect a change in the private sector debt.

primary deficits. Growth is expected to rebound in 2023 to 2 percent and to reach an average of 5 percent in the medium-term. The projected 3-year adjustment in the primary deficit is similar to those observed in historical data from peers with Fund-supported programs (Figure 4) and is consistent with the authorities' commitment with continued fiscal consolidation.

8. **Public investment and growth.** The ECF/EFF-supported program aims at augmenting public investment with growth-enhancing structural reforms, including SOEs reform, and an improvement of the business environment. The new RSF also aims to catalyze external private financing into the energy sector and for climate-related projects, though the exact impacts of this will only become clearer once the reform measures are implemented. Reforms under both programs would be expected to crowd-in and enhance domestic and foreign private investments in support of the higher projected growth trajectory over the medium term.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. **Moldova's debt carrying capacity is assessed to be strong, unchanged from the previous DSA.** The composite indicator (CI), which captures the impact of several factors through a weighted average of an institutional indicator,[10] real GDP growth, remittances,[11] international reserves, and world growth, confirms that Moldova's debt carrying capacity is classified to be strong, which is unchanged from the previous two DSA rounds. Applicable thresholds and benchmark are presented in Text Table 3.[12]

10. **The DSA includes a stress test that follows standardized settings.[13]** All the PPG external debt indicators remain below the policy relevant thresholds (Table 4 and Figure 1). The standardized stress test indicates a breach of public debt thresholds beyond 2028 (Table 5 and Figure 2). Moldova does not have prominent economic features such as significant reliance on commodity exports, nor market financing that would require additional tailored stress tests or other modules. Regarding the contingent liability stress test, a shock of 12 percent of GDP is used. The severity of the shock was calibrated to the most recent domestic banking crisis event in 2016 that resulted in recapitalization of about 8.3 percent of GDP.

[10] The World Bank's CPIA.

[11] Remittances for Moldova comprise of two Balance of Payments (BoP) accounts: compensation of employees and remittances.

[12] Moldova's CI is 3.07, which corresponds to a strong debt-carrying capacity based on the IMF's October 2023 World Economic Outlook and World Bank's 2022 CPIA.

[13] The shock applied is Real GDP growth set to its historical average (10 years) minus one standard deviation, or the baseline projection minus one standard deviation, whichever is lower for the second and third years of the projection period.

Text Table 3. Moldova: Debt Carrying Capacity and Applicable Thresholds

Debt Carrying Capacity and Thresholds

Country	Moldova
Country Code	**921**

Debt Carrying Capacity	**Strong**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Strong	Strong 3.07	Strong 3.11	Strong 3.13

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

11. Under the baseline scenario and alternative scenarios, all external debt indicators continue to remain below their policy-relevant thresholds (Table 2, Figure 1).[14] During 2023–28, new external financing will consist primarily of borrowing from multilateral and bilateral lenders, while commercial borrowing is expected to start playing a larger role in the long-term from 2029. The present value of PPG external debt is projected at 26.3 percent of GDP in 2023, decreasing to almost 13 percent by 2033. The ratio will remain well below the 55 percent threshold under the baseline scenario throughout the projection period. Similarly, debt service indicators remain below their respective thresholds. Improvements in debt-management practices envisaged under the authorities' reforms supported by the ECF/EFF program and

[14] The baseline includes the authorities' current investment plans, including current climate-related spending, financed by the current external borrowing plans with support from multilateral and bilateral lenders, with commercial borrowing playing a larger role over the longer-term. While the climate-related elements of this cannot currently be separated out or aggregated, the proposed RSF arrangement would support efforts to strengthen the climate public investment and budgeting processes, allowing a clearer picture of the existing climate efforts and additional needs. RSF disbursements should also help reduce the present value of debt and debt-servicing burdens than otherwise would be the case by substituting for more expensive domestic debt.

development of domestic debt market will give further resilience to shocks affecting debt service needs. A tailored stress test for the contingent liability shock also does not cause any breach of relevant thresholds. Under the most extreme scenario (export shock), most PPG debt indicators show an increase in their values but remain well below their indicative thresholds. These outcomes hinge on continued prudent fiscal policy and sound macroeconomic and debt management policies envisaged under the ECF/EFF program. Additionally, the market financing risk module indicates a moderate risk of heightened liquidity pressures. However, the shock is not relevant as Moldova does not plan to issue market debt in the near future.

12. While the external risk rating is determined by the PPG external debt, large private external debt poses some potential rollover risks. In the baseline scenario, the private external-debt-to-GDP ratio is expected to improve slightly to 43 percent of GDP in 2023, and then increase modestly before declining below 40 percent of GDP in 2034 supported by strong real and nominal growth and by a larger relative contribution of FDIs and other non-debt creating flows to the current account financing. Additional climate-related investment, including that catalyzed by the RSF, could also improve FDI flows, though short-term debt financing would increase debt ratios in the short to medium-term.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

13. Under the baseline, the indicators of the overall public debt burden are below the benchmark threshold, but risks remain. Under the baseline, the PV of total PPG debt-to-GDP ratio is projected to increase slightly to 40.3 percent of GDP in 2023 and decline below 30 percent of GDP from 2033 onward, remaining below the 70 percent benchmark in the medium-to-long term (Figure 2).

14. The ratio of PV of total PPG debt-to-GDP ratio exceeds its threshold under the real GDP growth shock. Over the long-term, under possible real GDP growth shock scenario[15] it remains elevated, breaching the threshold starting from 2026, as the country accumulates higher debt to finance larger fiscal and current account deficits. Such a scenario highlights the risks to debt sustainability faced by the authorities in the absence of needed reforms. A significant contingent liabilities shock (to SOEs and PPPs and/or financial market distress) would also increase debt levels notably, though such risks are difficult to quantify accurately due to lack of quality data on SOEs and PPPs. The authorities' planned structural reforms underpinned by the ECF/EFF program are expected to improve revenues, increase spending efficiency, and boost growth, thereby mitigating further risk of unsustainable debt. As such, Moldova's overall debt trajectory is projected to remain sustainable despite the recent shocks of the pandemic and the war in Ukraine.

[15] The shock occurs in the second and third years of the projection period and is at a level equivalent to one standard deviation below the baseline projections (i.e., an average of -3 percent per year).

RISK RATING AND VULNERABILITIES

15. Moldova's risk of external debt distress remains low but overall risk of public debt distress is classified as moderate.

- **Debt burden indicators for PPG external debt remain well below the indicative debt thresholds, under both the standardized and tailored stress tests.** While high private external debt in Moldova continues to pose risks to external debt sustainability, risk of external public debt distress continues to be assessed as low because PPG external debt is held mainly by multilateral and bilateral donors and is mostly medium and long term and on concessional terms.

- **Moldova's overall public debt dynamics are also projected to remain on a sustainable path under the baseline scenario but are subject to vulnerabilities in a growth shock.** Assuming the economy contracts with lingering effects, the public debt ratio exceeds its benchmark by 2026 leading to an overall public debt at moderate risk of distress. This could be particularly challenging given large domestic borrowing needs in the medium-term, and would be mitigated by the materialization of external financing from multilateral and official bilateral creditors on concessional terms.

- **Risks to the debt outlook remain tilted to the downside.** Further escalation of the war continues to pose security risks for Moldova, and a new wave of refugees or deterioration of economic conditions in Transnistria would put additional pressure on government finances. Renewed adverse confidence effects, inflationary pressures or additional external shocks would make policy trade-offs more challenging. With the winter season approaching, additional energy shocks would weaken Moldova's economic outlook, worsen the fiscal and external balances, and further upset the fragile social fabric. Political instability, including surrounding elections over the next two years, could jeopardize reform momentum and undermine donor funding. Extreme weather events exacerbated by climate change, particularly droughts and floods, will continue to increase over the long-term and could affect key sectors such as agriculture and impose significant losses, leading to increased debt vulnerabilities, particularly if adaptation measures are not undertaken. On upside, faster-than-anticipated recovery of domestic demand and faster growth in Moldova's main trade partners will boost the recovery in the short term. In the medium term, perspectives for EU accession and continued reforms under the current ECF/EFF program and the new RSF offer a unique opportunity to accelerate sustainable economic and social development. The RSF, in particular, could help mitigate risks stemming from energy shocks and could also help catalyze additional, long-term financing for adaptation to help deal with the aforementioned extreme weather events[16]. Good progress on these reforms combined with other debt management measures could help attract the necessary financing to sustainably increase climate-related investment to meet climate adaptation needs.

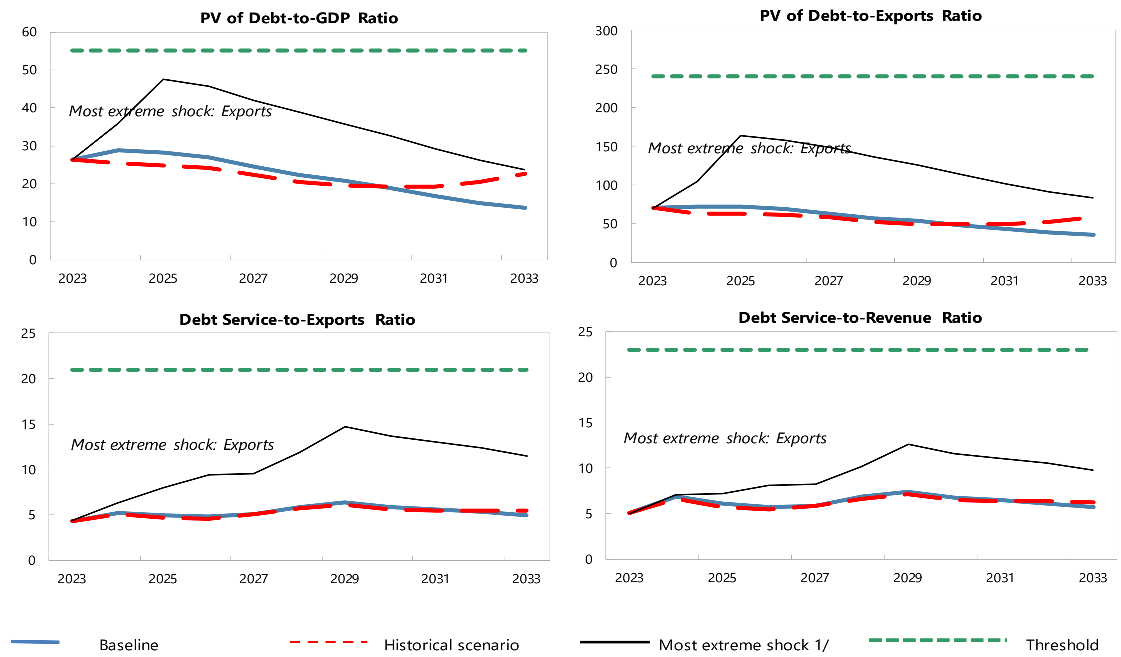
[16] See Staff Report paragraph 38 for details of the Reform Areas.

- **Mitigating debt risk requires sound macroeconomic management and sustained structural reforms.** The authorities should continue to maintain fiscal discipline and fiscal risk management. As the country is expected to accumulate debt to finance larger fiscal and current account deficits, strong and sustained political commitment is needed to deliver on fiscal policy with prudent deficit levels, revenue mobilization, and improved debt and fiscal risk management are imperative to safeguard Moldova's debt sustainability. In the near and medium-term, the authorities should rely on concessional financing consistent with the ECF/EFF-supported program and further strengthen public investment management to finance priority projects with high growth and social returns. Contingent liability risks—including from SOEs—should be monitored carefully. Advancing structural reforms, including to help mitigate long-term climate change-related risks, remain key to increasing the economy's growth potential and resilience, reducing vulnerability to shocks. Furthermore, development of the domestic debt market could further strengthen the outlook for debt sustainability, especially considering the expected transition of financing mix from concessional to commercial over the long term. As part of the ECF/EFF-supported program, the authorities are undertaking steps to strengthen debt and cash management to enable a broader range of longer maturity debt instruments to lengthen the maturity of domestic debt and deepen the secondary government securities market. Moldova will also seek to further strengthen debt management by developing domestic debt market and develop a new platform for retail investors. These will help to reduce the PPG domestic debt roll-over and interest rate risks.

AUTHORITIES' VIEW

16. **The authorities broadly agreed with staff's assessment of Moldova's public and external debt situation and recommendations for debt management, as well as the role the RSF could play in mobilizing critical financing for climate efforts.** They broadly concurred with staff's assessment on the debt projections and risk ratings. They recognize the importance of fiscal discipline and the need to manage fiscal risks. Importantly, they remain committed to the use of concessional and grant resources in the near term while they continue to prepare for greater commercial borrowing in the medium-term. They also recognize the role the RSF could play in both providing affordable financing for climate adaptation efforts and also the positive signal it could send through successful implementation of RMs.

Figure 1. Moldova: Indicators of Public Guaranteed External Debt Under Alternative Scenarios, 2023–2033



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	Yes	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

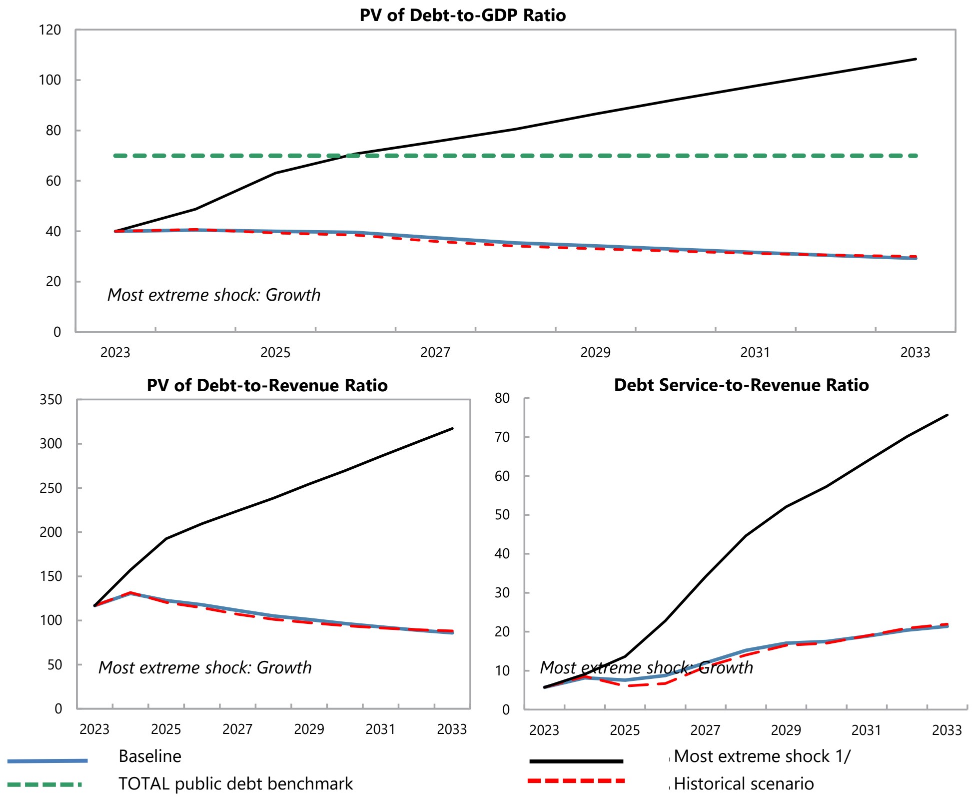
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.1%	4.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	3	3

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Moldova: Indicators of Public Debt Under Alternative Scenarios, 2023–2033



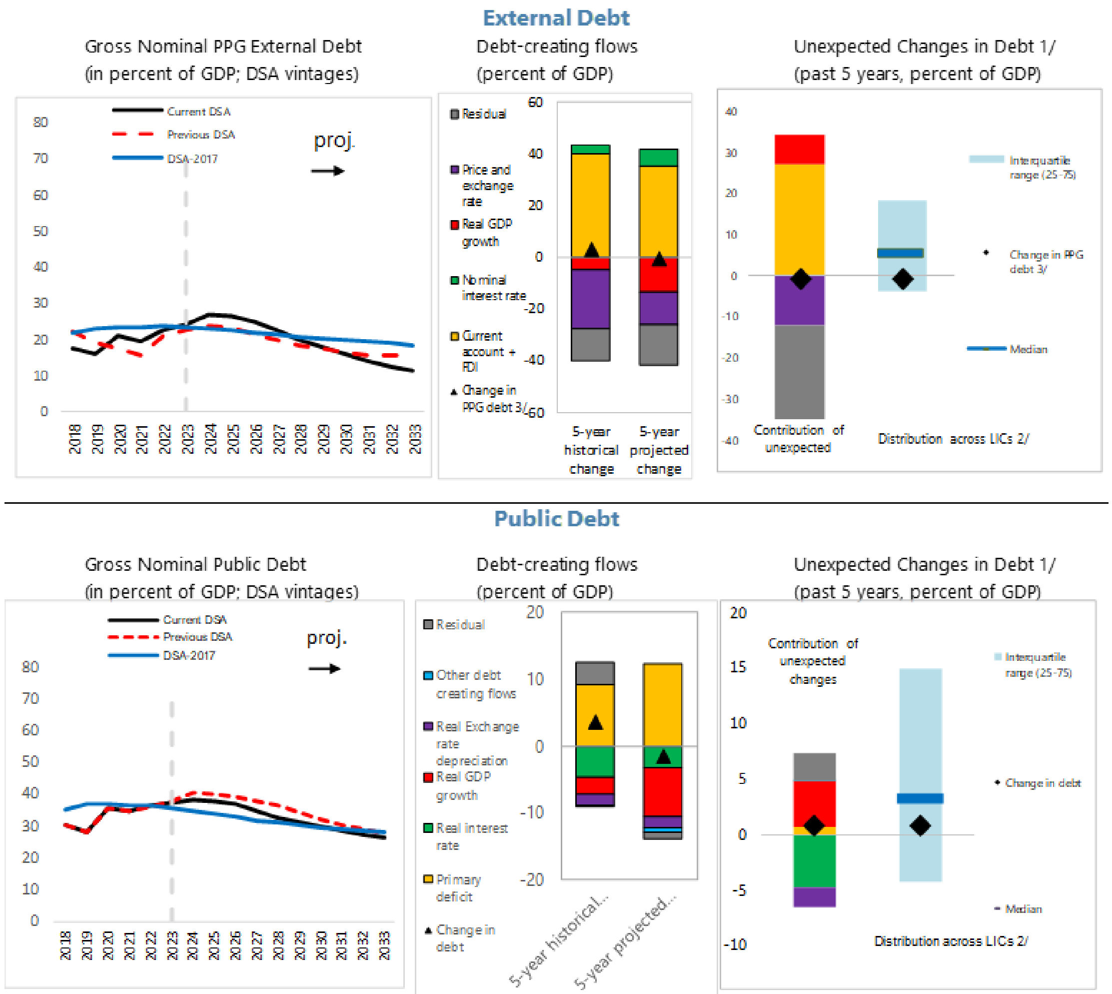
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	37%	37%
Domestic medium and long-term	32%	32%
Domestic short-term	31%	31%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.1%	4.1%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	3	3
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.3%	0.3%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	1.0%	1.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Moldova: Drivers of Debt Dynamics—Baseline Scenario



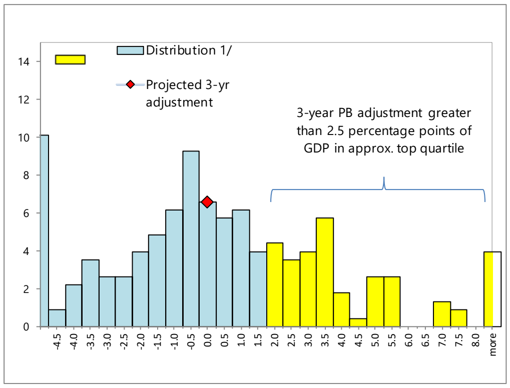
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

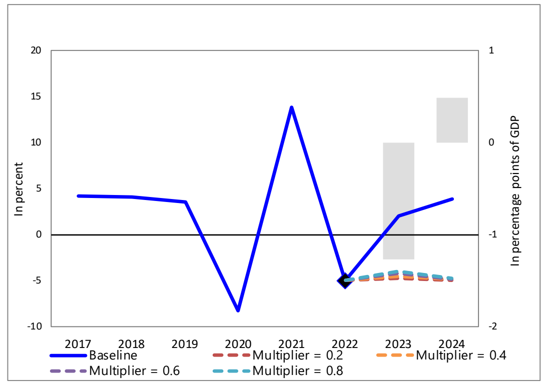
Figure 4. Moldova: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



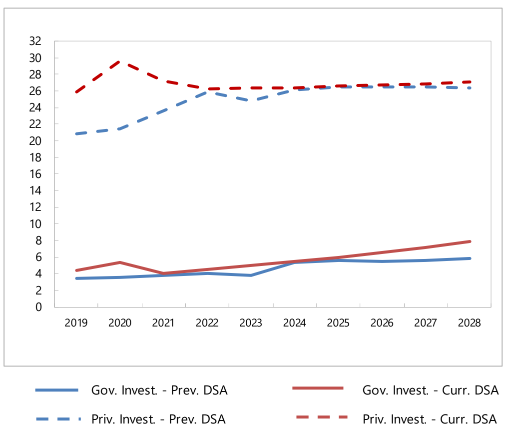
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

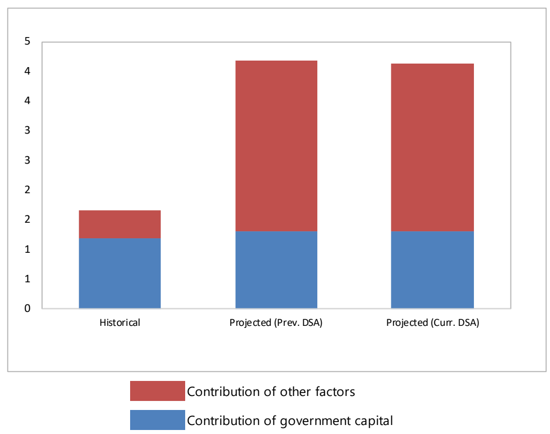


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP Growth
(percent, 5-year average)



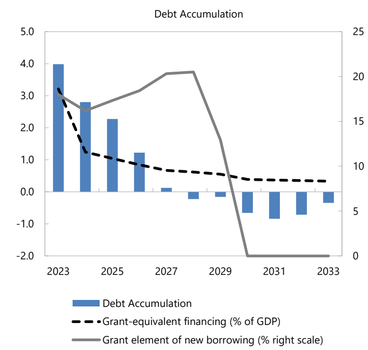
Source: IMF staff calculations.

Table 2. Moldova: External Debt Sustainability Framework, Baseline Scenario, 2022–2043

(in percent of GDP, unless otherwise indicated)

	Actual	Projections												Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043	Historical	Projections
External debt (nominal) 1/	**66.2**	**67.3**	**71.8**	**71.2**	**69.8**	**67.3**	**65.9**	**64.5**	**62.1**	**59.2**	**55.9**	**52.6**	**29.4**	**70.4**	**64.3**
of which: public and publicly guaranteed (PPG)	**22.7**	**24.2**	**27.0**	**26.5**	**25.0**	**22.4**	**20.1**	**18.1**	**15.9**	**14.0**	**12.3**	**11.2**	**8.6**	**20.1**	**19.7**
Change in external debt	2.9	1.1	4.5	-0.6	-1.3	-2.5	-1.5	-1.3	-2.4	-3.0	-3.3	-3.3	-1.8		
Identified net debt-creating flows	**9.7**	**8.8**	**6.5**	**5.0**	**4.0**	**4.0**	**3.9**	**2.9**	**2.1**	**1.4**	**0.9**	**0.4**	**-2.1**	**2.9**	**3.6**
Non-interest current account deficit	**16.5**	**11.4**	**10.3**	**8.9**	**8.2**	**8.2**	**8.3**	**7.3**	**6.5**	**5.7**	**5.1**	**4.5**	**1.2**	**7.9**	**7.7**
Deficit in balance of goods and services	29.4	27.4	26.1	24.2	23.2	22.6	22.2	21.0	19.9	18.8	17.7	16.6	7.1	**26.6**	**21.8**
Exports	41.1	37.3	39.9	39.5	39.3	38.6	39.0	39.0	39.0	39.0	39.0	38.9	38.8		
Imports	70.6	64.7	66.0	63.8	62.5	61.1	61.2	60.0	58.9	57.8	56.7	55.6	45.9		
Net current transfers (negative = inflow)	-11.9	-12.5	-11.1	-10.3	-10.0	-9.6	-9.4	-9.2	-8.9	-8.6	-8.4	-8.2	-6.1	**-12.9**	**-9.7**
of which: official	-0.8	-2.4	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1		
Other current account flows (negative = net inflow)	-1.0	-3.5	-4.7	-5.0	-5.0	-4.8	-4.5	-4.6	-4.5	-4.4	-4.2	-4.0	0.2	**-5.8**	**-4.5**
Net FDI (negative = inflow)	**-3.7**	**-2.2**	**-2.3**	**-2.3**	**-2.5**	**-2.4**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.4**
Endogenous debt dynamics 2/	**-3.1**	**-0.4**	**-1.5**	**-1.6**	**-1.8**	**-1.7**	**-1.9**	**-1.9**	**-1.9**	**-1.8**	**-1.7**	**-1.7**	**-0.8**	**-2.6**	**-1.6**
Contribution from nominal interest rate	0.6	0.8	1.1	1.5	1.5	1.5	1.2	1.2	1.1	1.1	1.0	1.0	0.7		
Contribution from real GDP growth	3.0	-1.2	-2.6	-3.1	-3.3	-3.2	-3.1	-3.1	-3.0	-2.9	-2.8	-2.6	-1.5		
Contribution from price and exchange rate changes	-6.7	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	**-6.9**	**-7.7**	**-2.0**	**-5.6**	**-5.3**	**-6.6**	**-5.3**	**-4.3**	**-4.5**	**-4.4**	**-4.1**	**-3.7**	**0.3**	**-2.9**	**-4.9**
of which: exceptional financing	-2.1	-2.1	-1.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1		
Sustainability indicators															
PV of PPG external debt-to-GDP ratio	**25.0**	**26.3**	**28.6**	**28.2**	**26.9**	**24.4**	**22.4**	**20.7**	**18.8**	**16.7**	**15.0**	**13.7**	**8.8**		
PV of PPG external debt-to-exports ratio	**60.7**	**70.5**	**71.6**	**71.4**	**68.6**	**63.3**	**57.3**	**53.2**	**48.1**	**43.0**	**38.4**	**35.1**	**22.6**		
PPG debt service-to-exports ratio	**3.8**	**4.3**	**5.3**	**4.9**	**4.8**	**5.0**	**5.8**	**6.3**	**5.8**	**5.6**	**5.3**	**4.9**	**5.6**		
PPG debt service-to-revenue ratio	**4.9**	**5.0**	**6.9**	**6.0**	**5.7**	**5.8**	**6.9**	**7.4**	**6.7**	**6.4**	**6.2**	**5.6**	**6.2**		
Gross external financing need (Million of U.S. dollars)	5994.0	5558.9	6051.5	6311.9	6877.4	7824.6	8047.7	8109.8	8074.8	8164.4	8321.1	8312.8	10737.2		
Key macroeconomic assumptions															
Real GDP growth (in percent)	-5.0	2.0	3.9	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	**3.1**	**4.6**
GDP deflator in US dollar terms (change in percent)	11.8	7.8	-2.0	4.5	4.0	5.5	3.1	1.9	1.9	1.9	1.9	1.9	1.9	**2.8**	**3.0**
Effective interest rate (percent) 4/	1.1	1.3	1.7	2.3	2.3	2.3	1.9	1.9	1.9	1.9	1.9	1.8	2.4	**1.0**	**1.9**
Growth of exports of G&S (US dollar terms, in percent)	42.5	-0.1	8.9	8.4	8.6	8.7	9.5	7.0	7.0	7.0	7.0	7.0	7.0	**9.6**	**7.2**
Growth of imports of G&S (US dollar terms, in percent)	29.7	0.9	3.8	5.8	7.0	8.4	8.3	5.0	5.0	5.0	5.0	5.0	5.0	**7.5**	**5.4**
Grant element of new public sector borrowing (in percent)	...	18.0	16.2	17.3	18.4	20.3	20.5	12.9	0.0	0.0	0.0	0.0	0.0	**...**	**11.2**
Government revenues (excluding grants, in percent of GDP)	31.6	31.9	30.5	32.2	33.2	33.1	33.2	33.5	33.7	33.7	33.7	33.7	34.6	**29.8**	**33.0**
Aid flows (in Million of US dollars) 5/	507.6	378.5	67.5	83.2	90.9	95.7	98.7	101.2	103.6	105.4	107.2	109.0	132.7		
Grant-equivalent financing (in percent of GDP) 6/	...	3.2	1.2	1.0	0.8	0.7	0.6	0.5	0.4	0.4	0.3	0.3	0.2	**...**	**0.9**
Grant-equivalent financing (in percent of external financing) 6/	...	45.4	22.5	27.5	33.6	43.0	45.1	36.0	40.9	41.3	34.9	26.6	9.3	**...**	**36.1**
Nominal GDP (Million of US dollars)	14,550	15,998	16,284	17,834	19,480	21,579	23,360	25,004	26,763	28,646	30,661	32,818	64,775		
Nominal dollar GDP growth	6.3	10.0	1.8	9.5	9.2	10.8	8.3	7.0	7.0	7.0	7.0	7.0	7.0	**5.9**	**7.7**
Memorandum items:															
PV of external debt 7/	68.5	69.4	73.5	72.8	71.7	69.3	68.2	67.1	65.0	61.9	58.6	55.1	29.6		
In percent of exports	166.5	185.8	184.0	184.3	182.6	179.8	174.7	172.1	166.6	158.9	150.3	141.4	76.2		
Total external debt service-to-exports ratio	51.0	56.6	61.6	61.4	62.8	66.5	60.7	58.0	54.4	52.1	50.2	47.0	33.3		
PV of PPG external debt (in Million of US dollars)	3630.7	4210.6	4659.1	5029.5	5247.7	5271.8	5222.7	5185.6	5020.7	4795.1	4590.5	4484.9	5682.7		
(PVt-PVt-1)/GDPt-1 (in percent)		4.0	2.8	2.3	1.2	0.1	-0.2	-0.2	-0.7	-0.8	-0.7	-0.3	0.3		
Non-interest current account deficit that stabilizes debt ratio	13.7	10.3	5.7	9.5	9.5	10.7	9.7	8.7	8.8	8.7	8.3	7.9	3.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

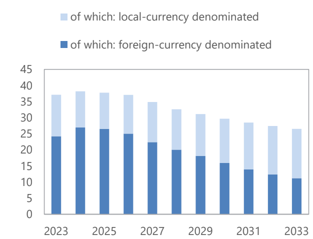
Table 3. Moldova: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–2043

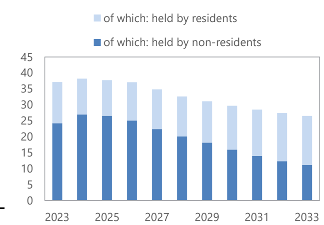
(in percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	**36.4**	**37.1**	**38.2**	**37.8**	**37.1**	**34.9**	**32.6**	**26.5**	**20.5**	**32.2**	**32.8**
of which: external debt	**22.7**	**24.2**	**27.0**	**26.5**	**25.0**	**22.4**	**20.1**	**11.2**	**8.6**	**20.1**	**19.7**
Change in public sector debt	1.8	0.7	1.1	-0.5	-0.6	-2.2	-2.2	-0.9	-0.4		
Identified debt-creating flows	**-0.2**	**0.7**	**1.0**	**-0.5**	**-0.7**	**-1.0**	**-0.7**	**-0.4**	**-0.4**	**0.9**	**-0.3**
Primary deficit	**2.2**	**3.5**	**3.0**	**2.3**	**1.9**	**1.7**	**1.2**	**0.6**	**0.0**	**1.3**	**1.6**
Revenue and grants	33.2	34.2	31.0	32.7	33.6	33.6	33.7	34.0	34.8	**30.9**	**33.5**
of which: grants	1.6	2.4	0.4	0.5	0.5	0.4	0.4	0.3	0.2		
Primary (noninterest) expenditure	35.4	37.7	34.0	34.9	35.5	35.3	34.8	34.6	34.9	**32.2**	**35.1**
Automatic debt dynamics	**-2.4**	**-2.3**	**-1.9**	**-2.7**	**-2.5**	**-2.6**	**-1.8**	**-0.9**	**-0.4**		
Contribution from interest rate/growth differential	-1.8	-1.8	-2.8	-2.1	-2.0	-1.8	-1.5	-0.9	-0.4		
of which: contribution from average real interest rate	-3.6	-1.1	-1.5	-0.3	-0.2	0.0	0.1	0.4	0.6		
of which: contribution from real GDP growth	1.8	-0.7	-1.4	-1.8	-1.8	-1.8	-1.7	-1.3	-1.0		
Contribution from real exchange rate depreciation	-0.7	-0.5	0.9	-0.6	-0.5	-0.8	-0.3	0.0	0.0		
Other identified debt-creating flows	**0.0**	**-0.5**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.8**	**-0.1**
Privatization receipts (negative)	0.0	-0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**2.1**	**0.1**	**0.1**	**0.0**	**0.0**	**-1.3**	**-1.6**	**-0.5**	**0.0**	**0.1**	**-0.6**
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	**39.0**	**40.0**	**40.5**	**40.0**	**39.6**	**37.4**	**35.4**	**29.3**	**20.8**		
PV of public debt-to-revenue and grants ratio	**117.4**	**116.8**	**130.7**	**122.4**	**117.7**	**111.3**	**105.1**	**86.0**	**59.8**		
Debt service-to-revenue and grants ratio 3/	**6.3**	**5.7**	**8.1**	**7.5**	**8.8**	**12.0**	**15.2**	**21.4**	**18.3**		
Gross financing need 4/	4.3	4.9	5.5	4.7	4.8	5.7	6.3	7.8	6.4		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	-5.0	2.0	3.9	4.8	5.0	5.0	5.0	5.0	5.0	**3.1**	**4.6**
Average nominal interest rate on external debt (in percent)	0.9	0.4	1.0	2.1	2.3	2.8	3.5	5.9	7.0	**1.1**	**3.4**
Average real interest rate on domestic debt (in percent)	-15.0	-3.0	-9.0	-3.5	-2.9	-2.3	-1.9	-0.7	1.4	**-1.4**	**-2.5**
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.6	...	...	...	...	...	...	...	...	**0.7**	**...**
Inflation rate (GDP deflator, in percent)	19.8	4.7	11.8	5.5	5.5	5.5	5.5	5.0	1.9	**7.1**	**5.8**
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.3	8.6	-6.4	7.7	6.8	4.2	3.7	4.8	8.0	**3.7**	**4.4**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.4	2.8	1.9	2.7	2.6	3.9	3.4	1.4	0.4	**0.1**	**2.5**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus social security, central bank, government-guaranteed debt, spending arrears, non-guaranteed majority owned SOE debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 4. Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–2033

(in percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
					PV of debt-to GDP ratio						
Baseline	26	29	28	27	24	22	21	19	17	15	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	26	25	25	24	22	20	19	19	19	20	23
B. Bound Tests											
B1. Real GDP growth	26	32	36	34	31	29	27	24	21	19	17
B2. Primary balance	26	29	30	28	26	24	22	20	18	17	15
B3. Exports	26	36	48	46	42	39	36	33	29	26	24
B4. Other flows 3/	26	31	33	32	29	27	25	22	20	18	16
B5. Depreciation	26	36	28	27	24	22	20	18	16	15	13
B6. Combination of B1-B5	26	36	38	36	33	30	28	25	22	20	18
C. Tailored Tests											
C1. Combined contingent liabilities	26	33	33	33	31	29	28	26	24	22	21
Threshold	55	55	55	55	55	55	55	55	55	55	55
					PV of debt-to-exports ratio						
Baseline	70	72	71	69	63	57	53	48	43	38	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	70	63	63	62	58	52	50	49	50	53	58
B. Bound Tests											
B1. Real GDP growth	70	72	71	69	63	57	53	48	43	38	35
B2. Primary balance	70	73	75	72	67	62	58	52	47	43	39
B3. Exports	70	104	164	158	148	136	125	114	102	92	83
B4. Other flows 3/	70	78	85	81	76	69	64	58	52	46	42
B5. Depreciation	70	72	56	54	49	44	41	37	33	29	27
B6. Combination of B1-B5	70	92	82	94	87	78	73	66	59	53	48
C. Tailored Tests											
C1. Combined contingent liabilities	70	82	84	83	80	75	71	66	61	57	53
Threshold	240	240	240	240	240	240	240	240	240	240	240
					Debt service-to-exports ratio						
Baseline	4	5	5	5	5	6	6	6	6	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	4	5	5	5	5	6	6	6	6	5	5
B. Bound Tests											
B1. Real GDP growth	4	5	5	5	5	6	6	6	6	5	5
B2. Primary balance	4	5	5	5	5	6	7	6	6	6	5
B3. Exports	4	6	8	9	10	12	15	14	13	12	12
B4. Other flows 3/	4	5	5	5	6	7	8	7	7	6	6
B5. Depreciation	4	5	5	4	4	5	5	4	4	4	4
B6. Combination of B1-B5	4	6	6	6	6	8	9	8	8	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	4	5	5	5	6	7	7	7	6	6	6
Threshold	21	21	21	21	21	21	21	21	21	21	21
					Debt service-to-revenue ratio						
Baseline	5	7	6	6	6	7	7	7	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	5	7	6	5	6	7	7	6	6	6	6
B. Bound Tests											
B1. Real GDP growth	5	8	8	7	7	9	9	9	8	8	7
B2. Primary balance	5	7	6	6	6	7	8	7	7	7	6
B3. Exports	5	7	7	8	8	10	13	12	11	11	10
B4. Other flows 3/	5	7	6	6	6	8	9	8	8	7	7
B5. Depreciation	5	9	8	6	7	8	7	7	6	6	6
B6. Combination of B1-B5	5	7	8	7	7	9	10	9	9	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	5	7	7	6	7	8	8	8	7	7	6
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 5. Moldova: Sensitivity Analysis for Key Indicators of Public Debt, 2023–2033
(in percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	PV of Debt-to-GDP Ratio										
Baseline	40	40	40	40	37	35	34	33	32	30	29
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	40	41	39	38	36	34	33	32	31	31	30
B. Bound Tests											
B1. Real GDP growth	40	49	63	**71**	**76**	**81**	**87**	**92**	**98**	**103**	**108**
B2. Primary balance	40	42	43	42	40	38	37	35	34	33	31
B3. Exports	40	47	57	56	53	50	48	45	43	40	38
B4. Other flows 3/	40	43	45	45	42	40	38	37	35	33	32
B5. Depreciation	40	42	39	36	32	28	24	21	18	14	11
B6. Combination of B1-B5	40	41	43	45	44	43	44	44	44	44	44
C. Tailored Tests											
C1. Combined contingent liabilities	40	52	51	50	47	45	43	42	40	39	38
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
	PV of Debt-to-Revenue Ratio										
Baseline	117	131	122	118	111	105	101	96	93	89	86
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	117	132	120	114	107	101	97	94	92	90	88
B. Bound Tests											
B1. Real GDP growth	117	157	192	209	224	238	255	269	286	301	317
B2. Primary balance	117	135	131	126	119	112	108	103	99	95	92
B3. Exports	117	151	176	167	158	149	141	133	126	119	113
B4. Other flows 3/	117	140	139	133	126	119	113	108	103	98	94
B5. Depreciation	117	135	118	107	94	82	72	62	52	42	33
B6. Combination of B1-B5	117	133	133	133	131	129	129	128	128	128	129
C. Tailored Tests											
C1. Combined contingent liabilities	117	168	156	149	141	134	128	123	119	114	111
	Debt Service-to-Revenue Ratio										
Baseline	6	8	8	9	12	15	17	17	19	20	21
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	6	9	6	7	11	14	16	17	19	21	22
B. Bound Tests											
B1. Real GDP growth	6	9	14	23	34	45	52	57	64	70	76
B2. Primary balance	6	8	9	11	14	17	19	19	20	22	23
B3. Exports	6	8	8	11	14	18	22	22	23	24	25
B4. Other flows 3/	6	8	8	9	13	16	18	19	20	22	22
B5. Depreciation	6	8	8	7	11	14	16	15	16	16	17
B6. Combination of B1-B5	6	8	9	11	16	20	23	25	27	29	31
C. Tailored Tests											
C1. Combined contingent liabilities	6	8	20	18	22	22	23	22	23	24	24

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

November 21, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENTS, AND REQUEST FOR ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—INFORMATIONAL ANNEX

Prepared By European Department (in consultation with other Departments)

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FUND RELATIONS

(As of October 31, 2023)

Membership Status: Joined August 12, 1992; Article VIII

General Resources Account:	**SDR million**	**Percent of Quota**
Quota	172.50	100.00
IMF holdings of currency	483.83	280.48
Reserve tranche position	0.01	0.00

SDR Department:	**SDR million**	**Percent of Allocation**
Net cumulative allocation	283.05	100.00
Holdings	10.13	3.58

Outstanding Purchases and Loans:	**SDR million**	**Percent of Quota**
RCF Loans	57.50	33.33
Emergency Assistance [1/]	86.25	50.00
ECF Arrangements	160.83	93.23
Extended Arrangements	225.08	130.48

1/ Emergency Assistance may include ENDA, EPCA, and RFI.

Latest Financial Commitments: [2/]

Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
ECF	12/20/2021	04/19/2025	198.09	121.90
EFF	12/20/2021	04/19/2025	396.18	155.65
ECF	11/07/2016	03/19/2020	43.10	43.10

Outright Loans:

Type	**Approval Date**	**Date Drawn**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
RCF	4/17/2020	4/21/2020	57.50	57.50
RFI	4/17/2020	4/21/2020	115.00	115.00

2/ Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment (i.e., Board approval date).

Overdue Obligations and Projected Payments to the Fund: 3/
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2023	**2024**	**2025**	**2026**	**2027**
Principal	5.56	76.50	57.02	44.47	59.46
Charges/Interest	7.09	26.09	22.59	21.27	19.93
Total	12.65	102.59	79.61	65.74	79.39

3/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Safeguards Assessments:

1. **An update assessment in connection with the emergency financing under the RFI and RCF disbursements approved by the IMF Executive Board in April 2020 was completed on September 9, 2020.** The assessment found that the NBM continues to maintain sound operational controls. Transparency and accountability practices adhere to international standards. The governance structure with strong independent oversight of NBM management is broadly appropriate. That said, further strengthening of the legal framework is necessary to safeguard the NBM autonomy and governance arrangements. With the adoption of the package of legislative amendments in December 2022 to strengthen the institutional autonomy and governance of the NBM, all main IMF safeguards recommendations have been implemented.

Exchange Arrangements:

2. **Moldova has accepted the obligations under Article VIII, Sections 2, 3 and 4, and maintains an exchange system that is free of restrictions on making of payments and transfers for current international transactions and multiple currency practices.**

3. **Moldova's de jure and de facto exchange rate arrangements are classified as floating.** The NBM intervenes in the domestic foreign exchange interbank market to smooth out sharp exchange rate fluctuations of the Moldovan leu against the US dollar. Sharp fluctuations are not specifically defined. However, the NBM intervenes based on market conditions and future expectations of market participants. These interventions do not aim to change the trend of the exchange rate determined by the market. The NBM intervenes directly at the market-quoted rates and publishes aggregated monthly data on its website regarding its interventions and interbank market turnover. The data show interventions by currency and type of operation (spot or derivative).

4. **The official exchange rate of the leu against the US dollar is determined daily as the weighted average of the exchange rates applied for spot noncash transactions performed in the interbank and intrabank domestic market.** The official exchange rate of the leu against other foreign currencies is based on the official exchange rate of the leu against the US dollar and the cross-rate of the respective foreign currency against the US dollar on international markets. The official exchange rate is used for accounting and statistical purposes.

Article IV Consultations:

5. The previous Article IV consultation was concluded on December 20, 2021. The staff report (Country Report No. 22/1) was published.

FSAP Participation:

6. Moldova has undertaken three FSAP assessments:

- 2004 – main mission May 2004; FSSA (Country Report No. 05/64) presented to the Board at the time of the 2004 Article IV discussions and published in February 2005.
- 2007 – main mission October 2007; FSSA (Country Report No. 08/274) presented to the Board with the 2007 Article IV Consultation report and published in August 2008.
- 2014 – main mission March 2014; FSSA (Country Report 16/70) presented to the Board with the 2014 Article IV Consultation report and published in February 2016.

Resident Representative:

7. Ms. Svetlana Cerović assumed her duties as Resident Representative on August 18, 2023.

Technical Assistance Since Last Article IV Consultation (December 2021):

Department	**Timing**	**Topic**
MCM	October 2022; November 2022; January-February 2023	Financial Supervision and Regulation
MCM, LEG	November-December 2022	Financial Crisis Management
MCM	March 2023	Systemic Risk Analysis
FAD	February 2022; March 2022; October-December 2022; January-February 2023	Tax Policy Analysis Capacity Strengthening
FAD	February 2022; March 2022; September-October 2022; November-December 2022; April 2023; October 2023	Tax Administration
FAD	February-March 2022	Wage Bill Management
FAD	June 2022; June 2023 (C-PIMA)	Strengthening Public Investment Management

Department	Timing	Topic
FAD	September-October 2023	Macro-fiscal policies (CPAT)
LEG	September 2022; April 2023	AML/CFT
STA	February-April 2022	Government Finance
STA	February-March 2022; March 2023; September 2023	National Accounts
STA	April 2022	Institutional Sector Accounts
STA	June-July 2022; September 2023	Prices

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

International Financial Institution	Hyperlink
The World Bank Group	https://www.worldbank.org/en/country/moldova
The European Bank for Reconstruction and Development (EBRD)	https://www.ebrd.com/moldova.html
European Investment Bank (EIB)	https://www.eib.org/en/projects/regions/eastern-neighbours/moldova/index.htm

Relations with World Bank Group:

8. Aligned with Moldova's medium-term National Development Strategy "European Moldova 2030" and the updated Moldova 2030 strategy, the World Bank Group (WBG) proposed the Country Partnership Framework (CPF) for FY23-FY27, aiming to support the country's shift towards a new economic model emphasizing sustainable and inclusive growth. The CPF, inspired by the challenges highlighted in the 2021 SCD Update and lessons from the previous CPF, is designed around three High-level Outcomes (HLOs) namely: (a) bolstering export-competitiveness and building capacity in food safety, business development, and IT-enabled services; (b) enhancing health and education services while safeguarding the most vulnerable; (c) reinforcing energy sector security and promote a climate-resilient agenda. These outcomes correspond with the objectives of the Global Crisis Response Framework (GCRF), emphasizing job preservation, people's protection, and institutional strengthening. With an emphasis on digitalization's role in governance, the CPF underscores the importance of fortifying systems and institutions, consistent with the GCRF's emphasis on policy, institution, and investment strengthening for resilient development.

9. The comprehensive approach of the CPF reflects a phased strategy that seeks to address both immediate crises and longstanding developmental challenges, in tandem with Moldova's aspirations for EU accession. The framework acknowledges the need for a concerted focus on systemic and institutional strengthening, as well as fostering citizen engagement, to ensure the effective implementation of the outlined objectives. By aligning with Moldova's national vision and development priorities, the CPF stands as a robust blueprint for facilitating the country's journey toward a more resilient and inclusive economic future.

10. The WB's active portfolio includes eleven operations. On May 1, 2023, the WB investment portfolio totaled US$611 million in commitments, covering key sectors such as the financial sector, agriculture, transport, energy, etc. Encountering Russia's invasion of Ukraine, the future budget focuses on aiding authorities in mitigating the economic fallout from war while simultaneously advancing the long-term agenda through policy reforms aimed at bolstering support for refugees and households, enhancing energy efficiency, and strengthening financial and institutional resilience, including the digitalization of public services for improved administrative efficiency and increased financial access. The size of Moldova Multi-donor Trust Fund (MDTF), which finances Development Policy Operations (DPOs), is approximately US$300 million.

Relations with the EBRD:

11. As of November 2023, the Bank has invested a total of EUR 2.1 billion through 169 projects in various sectors of Moldova's economy, and EBRD's portfolio in Moldova stood at EUR 487 million with 64 active portfolio projects. Approximately 47 percent of the Bank's portfolio is in the Sustainable Infrastructure sector, followed by 40 percent in Industry, Commerce & Agribusiness and 14 percent in Financial Institutions. Annual business investment in 2022 soared to 525 million across 14 operations, marking a significant increase from the 100 million EUR annual investment over the previous five years. The Bank continues to maintain extensive policy dialogue across sectors in concert with development partners, including extending support in non-transactional areas such as business climate improvements through its ongoing support to the Economic Council and public procurement providing support to the Government in implementation of electronic procurement system under the WTO GPA trade commitments. The Bank is also actively engaged in energy sector policy dialogue alongside EIB and WB focusing on liberalization of gas and electricity markets and implementation of EU 3rd Energy Package.

12. The Bank's operations in the country are guided by Moldova Country Strategy 2023-2028. The strategy defines the following priority areas:

- *promoting a greener economy* by strengthening energy resilience and security,
- *supporting competitive and inclusive private sector development* by enhancing financial infrastructure resilience and improving governance,
- *improving inclusive infrastructure delivery* to support growth and enhance connectivity and trade.

Relations with the EIB:

13. The EIB has been actively engaged with Moldova since 2008, aligning its operations with the European Neighborhood Policy, Eastern Partnership, and other EU agreements. Moldova's recent designation as a candidate country for EU membership, following the European Council's decision on June 23, 2022, marks a significant milestone. The EIB's financial support has been instrumental in vital sectors, facilitating the growth of small businesses, improving transportation, and enhancing water and energy management. Notably, the EIB's assistance in diversifying Moldova's energy sources, such as the Ungheni-Chisinau gas interconnection, has been impactful. EIB provided a €25 million loan to finance projects that are part of the country's Waste Management Strategy. Additionally, collaborations to upgrade the Trans-European Transport Network (TEN-T) aim to foster enhanced connections, contributing to the achievement of EU's climate objectives and safer journeys.

STATISTICAL ISSUES

(As of November 6, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. Over the last several years, with technical assistance (TA) from the Fund the authorities have improved statistics in several areas, including national accounts, fiscal and monetary data, consumer prices, and external trade. TA is ongoing in the area of price and national accounts statistics.
National Accounts: With the support of the IMF's Statistics Department (STA), the NBS has made good progress in recent years in improving quarterly and annual national accounts which are compiled according to the 2008 SNA. GDP is estimated from the production and the expenditure sides, annually and quarterly. Estimates do not include the Transnistria region for which data have not been collected since 1991.
Price statistics: The NBS publishes monthly Consumer Price Index (CPI) and Producer Price Index (PPI) data and began publications of the core CPI from 2010. The weights of the CPI basket are updated on an annual basis to reflect adjustment in consumer expenditures. At the beginning of 2021, NBS revised CPI production in line with the COICOP. In addition, a TA mission in September 2023 initiated a project on the use of scanner data in the CPI. The PPI could benefit from an extension of coverage to include more services activities. STA successfully finished TA to the NBM with the publication of a residential property price index (RPPI) for Chisinau in December 2020.
Government finance statistics: Moldova reports annual Government Finance Statistics (GFS) that are broadly aligned with the *Government Finance Statistics Manual 2014 (GFSM 2014)* methodology for publication in the STA Annual GFS database. The data are on a cash basis and cover transactions and stock positions of the budgetary general government sector, but the operations of a number of extrabudgetary units are not fully covered by the data. With the support of Fund TA, the authorities introduced regular dissemination of monthly and semi-annual *GFSM 2001* based data for the central government units, however sub-annual GFS are not currently reported to STA. Moldova reports quarterly public sector debt data to the IMF / World Bank quarterly public sector debt database covering most of public sector other than the Central Bank and most material debt instruments.

Monetary statistics:

Monetary and Financial Statistics (MFS) are compiled broadly in line with the Monetary and Financial Statistics Manual. The NBM reports monetary and financial statistics monthly, using Standardized Report Forms (SRFs) for the central bank, other depository corporations, and other financial corporations (OFCs); and monetary data based on these SRFs are published in the International Financial Statistics.

The NBM reports data on some key series to the Financial Access Survey (FAS), including mobile and internet banking, SMEs, gender disaggregated data, and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance:

The NBM also reports Financial Soundness Indicators (FSIs) on a quarterly basis which include 13 core and 18 additional indicators for deposit takers and other financial corporations. FSIs are posted on the FSI webpage.

External sector statistics:

The Balance of Payments (BOP) and International Investment Position (IIP) statistics have been compiled fully in line with the sixth edition of Balance of Payments and International Investment Position Manual (BPM6): BOP starting with data for 2009, and IIP starting with data for 2001. The time series prior to the years indicated above are on BPM5 basis. Besides the BOPs and IIP statistics, Moldova disseminates other external sector statistics (ESS) datasets such as external debt statistics, international reserves statistics, and coordinated direct investment survey. All ESS datasets are compiled and disseminated with prescribed SDDS periodicity and timeliness.

II. Data Standards and Quality

Moldova subscribed to the IMF's Special Data Dissemination Standard (SDDS) in May 2006. The Moldova latest SDDS Annual Observance Report is available in the Dissemination Standards Bulletin Board. The Data on the Report on Observance of Standards and Codes (ROSC) was published in March 2006.

Moldova: Table of Common Indicators Required for Surveillance

(As of November 3, 2023)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]
Exchange Rates	November 2023	11/03/2023	D/M	D	D/M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	September 2023	10/24/2023	W/M	W	M
Reserve/Base Money	10/20/2023	10/24/2023	W	W	M
Broad Money	10/20/2023	10/24/2023	W	W	M
Central Bank Balance Sheet	September 2023	10/26/2023	M	M	M
Consolidated Balance Sheet of the Banking System	September 2023	10/26/2023	M	M	M
Interest Rates[2]	September 2023	10/20/2023	M	M	M
Consumer Price Index	June 2023	07/11/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]-General Government[4]	September 2023	end October 2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	September 2023	end October 2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	September 2023	end October 2023	A	A	A
External Current Account Balance	Q2/2023	09/30/2023	Q	Q	Q
Exports and Imports of Goods and Services	Q2/2023	09/30/2023	Q	Q	Q
GDP/GNP	Q2/2023	09/15/2023	Q	Q	Q
Gross External Debt	Q2/2023	09/30/2023	Q	Q	Q
International Investment Position	Q2/2023	09/30/2023	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, state social security funds, and health insurance funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

November 21, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FOURTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FACILITY ARRANGEMENTS, REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENTS, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

A. Country Vulnerability to Climate Change, Including Human, Social and Economic Costs

1. **Climate-related natural hazards pose significant threats to Moldova's development.** Moldova is highly exposed to a range of natural hazards, including droughts, floods, heatwaves, late spring frosts, hail, floods, and severe storms[1]. As much as 12.2 percent of the population is considered exposed to natural disasters compared to the Upper Middle-Income Country (UMIC) average of just 2.1 percent. During the 1984–2006 period, Moldova's average annual economic losses due to natural disasters was around 2.1 percent of GDP[2]. In 2008, the country experienced severe torrential rains which led to widespread flooding, with the country incurring US$120 million in losses. But the biggest impacts have come from droughts. Between 2000 and 2012, Moldova experienced four devastating droughts. The 2007 drought—the worst in Moldova's history—affected 80 percent of the country's territory, leading to a 23 percent decline in agricultural production and causing about US$1.0 billion in economic losses overall.[3] A drought in 2020 resulted in a 26 percent decline in agricultural production, which had significant socio-economic repercussions, including nearly a 20 percent reduction in

[1] Moldova is also highly susceptible to seismic activity. Although not a climatic event, the country has experienced several large-scale earthquakes in the past 50 years.

[2] Government of the Republic of Moldova (2020), Updated Nationally Determined Contribution of the Republic of Moldova.

[3] Ibid

employment within the agriculture sector.[4] Subsequently, in 2022, another drought, coupled with elevated fertilizer and fuel prices due to the spillovers from Russia's invasion of Ukraine, led to a 46 percent decrease in cereal output, reaching the lowest volume on record compared to the five- year average.[5]

2. **Climate change is expected to increase the frequency and severity of droughts and other natural hazards, with potentially severe impacts on Moldova's critical agriculture sector and beyond.** Average annual temperatures in Moldova are expected to increase by 2–3°C by 2050, with temperatures substantially higher in the south. This will be accompanied by a pronounced shift in precipitation patterns, with increases in the north and declines in the south. The likelihood of multi-year droughts is projected to increase and, if not properly managed, droughts could have devastating impacts on Moldova's vital agriculture sector, which contributes 11 percent of the GDP, 21 percent of employment, and 45 percent of exports. Impacts will be particularly severe on rainfed crops, which comprise 87 percent of current production,[6] but high-value export crops will also be affected, as higher temperatures increase their crop water demands. It has been estimated that climate change could result in 35 percent cumulative loss in net revenue for the livestock sector by 2040[7]. Beyond agriculture, other vulnerable sectors include water resources, transport, energy, human health, and forestry.

3. **Climate impacts will put vulnerable populations at risk**. As much as 80 percent of Moldova's poor population live in rural areas, and the majority of these derive their income and food from the agriculture sector. Rising drought frequency and severity may trigger increased poverty and food insecurity. Moreover, stress to water resources, as a result of changes in the precipitation patterns, risks worsening rural access to quality water supply and sanitation, with implications for water security, health, and welfare of vulnerable populations. Climate shocks disproportionately affect women and other vulnerable groups such as persons with disabilities, the Roma population, elderly, youth, and refugees. Climate change has especially large impacts on rural women engaged in the agriculture sector (36 percent of Moldova's farmers are women) due to their low adaptive capacity.[8]

[4] According to the FAO, above-average temperatures, and poor rainfall during the 2020 season, severely affected wheat and maize crops.

[5] GIEWS Country Brief: Republic of Moldova 28-November-2022, FAO 2022

[6] https://www.climatelinks.org/resources/climate-risk-profile-moldova

[7] World Bank (2013), Reducing the Vulnerability of Moldova's Agricultural System to Climate Change: Impact Assessment and Adaptation Options. World Bank: Washington, DC.

[8]https://worldbankgroup.sharepoint.com/sites/gsgsocialinclusion/SitePages/SystemPages/Detail.aspx/Documents/mode=view?_Id=1871&SiteURL=/sites/gsgsocialinclusion

B. Government Policies and Commitments—Adaptation and Priority Areas to Strengthen Resilience

4. Ensuring resilience to climate change by reducing the above risks and facilitating adaptation figures among the specific goals of Moldova's 2030 National Development Strategy. The National Development Strategy mentions 6 priority sectors in which the above-mentioned shall be realized – health, transport, agriculture, energy, water resources, and forests. The World Bank's 2021 Systematic Country Diagnostic Update identifies the priorities to enhance resilience, especially in the face of climate change. These involve the following: creating a comprehensive and forward-looking disaster risk mitigation and climate resilience strategy and integrating it within sector institutions, with a particular emphasis on forestry, water resource management, and green transport; fostering a more robust and competitive agricultural sector; and intensifying both public and private sector efforts in the realm of climate change mitigation and adaptation.

5. Moldova has established a comprehensive institutional framework for Disaster Risk Management, with efforts underway to align Moldovan legislation with European Union (EU) standards. Moldova's civil protection system comprises three principal institutions tasked with addressing emergencies and disasters. Firstly, the General Inspectorate for Emergency Situations (GIES),[9] operating under the Ministry of Internal Affairs, serves as an all-encompassing emergency response agency. Secondly, the National Commission for Emergency Situations[10] is responsible for managing the activities of state executive institutions during emergencies and plays a role in executing long-term programs. Thirdly, the State Hydrometeorological Service, operating under the Ministry of Environment, takes charge of monitoring, forecasting, and issuing warnings pertaining to hydro-meteorological, agro-meteorological, and certain environmental hazards. Regional and local governments, in coordination with GIES, are responsible for response operations. Furthermore, in September 2023, Moldova signed the Agreement to become a Participating State in the EU Civil Protection Mechanism, which will integrate Moldova into a continent-wide network that provides access to human resources and state-of-the-art equipment for disaster response with the potential to reduce response times, limit damage, and facilitate a more rapid recovery from emergencies. However, despite these positive developments, Moldova faces substantial challenges in ensuring an effective and efficient disaster response. The country's emergency

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[9] GIES coordinates activities of national and local agencies/authorities, informs local authorities of emergencies, trains paramilitary, nonmilitary, and emergency rescue, develops public educational programs, drafts normative acts/civil protection plans to be submitted to Parliament, coordinates civil protection research.

[10] The Chair of the Commission is the Prime Minister of the Republic of Moldova, the First Deputy Chair is the First Deputy Prime Minister, and deputy chairs are the State Secretaries of the involved ministries, the Minister of Interior, and the Head of the GIES of the Ministry of Internal Affairs.

communication and early warning systems are lacking, and the emergency response equipment is either outdated or absent.

6. **Promptly assessing the risks and prioritizing the investments in disaster and climate risk reduction across crucial sectors are imperative.** This includes ensuring the resilience of emergency response services, government facilities that deliver critical public services (such as healthcare and education), and critical infrastructure to guarantee continued functionality during emergencies, supported by alternative energy and communication systems. Furthermore, it is essential to reevaluate and reinvest in Moldova's existing drought and flood protection measures, constructed in the 1980s. Concurrently to the effort to strengthen disaster response, Moldova must expedite its actions in risk reduction and climate adaptation within vital sectors. Efforts need to be deployed to enhance Moldova's capacity for adaptation and resilience, both at the sectoral and economy-wide levels, in order to mitigate the impacts of climate change and reduce associated vulnerabilities. According to the Notre Dame Global Adaptation Initiative (ND GAIN) Country Index, Moldova ranks both among the most vulnerable countries to climate change and stands out as one of the least prepared countries in the Eastern Europe and Central Asia region when it comes to addressing the challenges posed by climate change.

7. **The Government of Moldova has incorporated climate change adaptation measures into its policy framework and various sector-specific policies.** Moldova has demonstrated significant advancement in its commitment to adaptation initiatives, as evidenced by the development and adoption of several strategic and cross-sectoral documents that delineate the country's vision for mitigating both present and anticipated climate risks to its economy and population. These documents encompass the Climate Change Adaptation Strategy and its implementation Action Plan (established in 2014) and a range of national policy papers encompassing various socioeconomic domains and sector-specific development documents targeting national priority sectors like agriculture, water resources, public health, forestry, energy, and transportation. In order to bolster these commitments, Moldova has incorporated an adaptation component into its revised Nationally Determined Contributions (NDC) or NDC2, submitted to the United Nations Framework Convention on Climate Change in 2020. This adaptation component integrates cross-sectoral and sector-specific adaptation actions and measures, aligning with the National Development Strategy: Moldova 2030 and the overarching adaptation objective of the Paris Agreement. It recognizes the necessity of enhancing the policy environment for adaptation, as well as strengthening government regulatory and institutional capacities. In August 2023, a National Climate Change Adaptation Program until 2030 and its Action Plan were adopted to drive forward implementation of adaptation commitments. Furthermore, there is an ongoing effort to develop a second iteration of the National Adaptation Plan, which would include a specialized focus on the agriculture sector.

8. **Overcoming obstacles that hinder the adoption of existing climate-resilient initiatives can lead to increased take-up.** Despite efforts to bolster the resilience of the

agriculture sector to climate change through improvements in irrigation services, the adoption of climate-smart agricultural practices, and the strengthening of existing agricultural insurance systems, a significant portion of the sector remains highly vulnerable to the adverse impacts of unforeseen events. A significant challenge lies in the fact that many farmers remain unconvinced about the advantages of climate-smart agricultural practices.[11] This underscores the necessity for awareness-raising efforts to boost public engagement and involvement in climate action. Additionally, this highlights the need of having adequate collection and analysis of statistical data concerning the impact of climate change on vulnerable groups which would not only inform policy design and interventions but also ensure that the perspectives and needs of vulnerable communities are considered in decision-making.

C. Government Policies and Commitments – Mitigation and Priority Areas to Reduce GHG Emissions

9. Moldova is a small emitter in absolute terms, but increasing emissions stemming from energy, agriculture, and waste sectors call for decisive measures to fulfill the objectives of Nationally Determined Contributions (NDC). Moldova contributes only around 0.03 percent of global greenhouse gas (GHG) emissions, with annual emissions at 13.7 MtCO2 equivalent in 2020.[12] It ranks the second lowest in terms of energy supply per capita and has the lowest electricity consumption per capita in Europe, including the EU and the Energy Community (EnC) contracting parties. However, the country's GHG emissions per $1,000 of GDP is six times higher than the EU average. Approximately 70 percent of total emissions can be attributed to the energy sector, with primary contributors being power and heat generation, followed by transport and buildings. Agriculture and waste make up significant non-energy sources of emissions, each accounting for roughly 11 percent of total GHG emissions in 2020, including a substantial portion of methane emissions, which constituted 17.5 percent of the total GHG emissions in that year.[13] Land use, land use change, and forestry (LULUCF), which offset almost 20 percent of emissions in 2000, were no longer a significant net carbon sink as of 2020.

10. Moldova is developing strategic documents and enacting legislation to support decarbonization and energy security, but large investments will be needed. After signing the Paris Agreement on climate change in 2016, Moldova became one of the early adopters to devise and endorse its 2030 Low Emissions Development Strategy and, in 2018, the National System of Monitoring and Reporting of Greenhouse Gas Emissions. Moldova's commitment to more ambitious goals was evident when it submitted NDC2 in February 2020. In this revision, the country set a more stringent unconditional target, aiming to reduce GHG emissions by

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[11] World Bank and CIAT, 2016

[12] Moldova UNFCC Fifth National Submission, 2023

[13] Moldova UNFCC Fifth National Submission, 2023

70 percent below the 1990 level by 2030, exceeding the previous commitment of 64-67 percent in the first NDC in 2015 or NDC1. The NDC2 also enhanced the conditional target to 88 percent, an improvement over the 78 percent stipulated in NDC1. Moldova has also developed its first ever Low Emissions Development Program that will become effective on January 1, 2024. The Program systematizes a set of policies and sector-specific action plans with the purpose of achieving greenhouse gas emission reduction targets as detailed in the NDC2. As outlined in the Program, the goal is to achieve a reduction in GHG emissions by 2030 compared to the levels in 1990, in the sectors of energy, transport, agriculture, industry, buildings and waste. These strategic and policy foundations, along with institutional and regulatory reforms, will be critical to support the significant public and private investments that will be needed to meet Moldova's decarbonization objectives. The NDC2 estimates US$0.5 billion per year is needed through 2030 to meet conditional NDC targets.[14]

11. With the energy sector being a priority area for Moldova to reduce GHG emissions, scaling up investments on energy efficiency in buildings, decarbonization of the heating sector and the development of renewable energy will play a crucial role in supporting the country's transformation towards sustainable and low carbon economy. As the heating sector and electricity generation rely largely on natural gas, the Government has prioritized energy efficiency investments in buildings as the most cost-efficient CO_2 mitigation option. Investments on energy efficiency in public buildings are under preparation with support by the World Bank and other donor partners. The increased use of renewable energy sources to decarbonize the heating sector is also being explored under a sustainable heating roadmap under preparation with World Bank support. Currently, renewable energy constitutes approximately 6 percent of the electricity supply, primarily coming from hydro sources. Renewables account for about 20 percent of the overall energy supply, with the largest source from biomass for heating. The share of wind, solar, and biogases in the energy mix is gradually on the rise. Addressing competition and regulatory obstacles that currently hinder the participation of private investors will be pivotal for expanding investments in renewable energy. In addition, impediments curbing a broader adoption of renewables include the absence of long-term planning, deficiencies in the power infrastructure, the relatively small market size and limited local power system balancing capacities. It is foreseen that some of these barriers and bottlenecks will be tackled through various strategic documents, including the Integrated Climate and Energy Plan of Moldova by 2030 and the amendments to the Renewable Energy Law No. 10/2016, both currently under public consultations. Moldova adopted a new energy efficiency law in May 2023 and is expected to adopt new legislation on energy performance in buildings in Q4 2023.

12. A framework climate law is under development that will be critical to underpin implementation against climate targets. The Climate Law under development by the

[14] The World Bank's ongoing Country Climate and Development Report (CCDR) will provide an estimate of investment needs to reach net zero across the economy.

Ministry of Environment will establish legal reference to NDC commitments and 2050 climate neutrality and provide a basis for the implementation and evaluation of policies and measures for the GHG emission reduction and adaptation. The climate law is also needed to provide the legal basis to develop the mechanisms for emissions monitoring, reporting, and verification (MRV) and an emissions trading system (ETS), which will enable Moldova to put a price on carbon and mitigate the potential impacts of the EU Carbon Border Adjustment Mechanism (CBAM).

D. Other Challenges

13. Charting a path towards low-carbon and climate-resilient development in Moldova is made more challenging by long-term structural constraints and continued social, political, and economic risks, compounded by shocks resulting from Russia's invasion of Ukraine. As a small, land-locked economy experiencing long-term demographic decline, Moldova has been stuck in a vicious circle of low labor productivity, low levels of investment, and weak job creation stimulating further outmigration and a shrinking and increasingly low productivity workforce. Without timely and substantial structural reforms, Moldova faces a deterioration of long-term drivers of economic growth and stagnant living standards. Significant fiscal support is needed to address substantial infrastructure gaps, including challenges posed by climatic conditions. The situation is aggravated by the long-standing unresolved status of Transnistria, which contributes to volatility and raises major economic and energy security risks, and by the recent spillovers from Russia's invasion of Ukraine, including a large inflow of refugees, rapidly rising energy prices, trade and logistic bottlenecks, and security risks. Moldova urgently needs to lay the foundations for a more competitive and diversified economy that can support both the climate transition and economic transformation.

14. EU integration represents an opportunity to unlock growth potential and convergence with EU socio-economic and environmental standards. Close integration with the EU offers significant economic opportunities for Moldova, to align with the EU on key economic and institutional criteria, and to integrate with value chains as part of Europe's green transition. Integration can contribute to establishing a functional and competitive market economy with increased private investment, faster gains in productivity growth, a more competitive economy, and greater job creation, if Moldova can sustain critical reforms in the business environment, strengthen infrastructure and human capital, and implement market-enabling fiscal policies. EU integration can also help Moldova to rapidly adopt the standards, policies, and institutional mechanisms to support decarbonization and climate resilience.

E. World Bank Engagement in the Area of Climate Change

15. Increased resilience to climate change and shocks is one of three high-level outcomes of the World Bank's new Moldova Country Partnership Framework (CPF) for

2023–2027. This outcome will be achieved through targeted interventions to increase energy security and efficiency and promote green and resilient investments in infrastructure and agriculture.

16. The World Bank financing, technical assistance, and analytics are contributing to support climate mitigation and energy security in Moldova. The World Bank energy sector engagement focuses on supporting enhanced energy efficiency and a market-oriented and financially sustainable energy sector that facilitates investment in renewable energy and strengthens energy security. Specifically, through two Investment Project Finances—the *Second District Heating Efficiency Improvement Project (DHEIP-2)* and *Power System Development Project (PSDP*—along with a new planned energy efficiency program*, Sustainable Transition to Energy Efficiency in Moldova (STEEM) –* complemented with Development Policy Finance engagement and Advisory Services and Analytics, the World Bank supports rules-based and competitive electricity purchasing, a reinforced domestic power transmission grid, energy efficiency improvements in district, and development of a new source of electricity generation. Capacity-building support is being provided to a range of actors at the local and national levels, including local governments, utilities, property owners, regulatory agencies, and central government authorities. The World Bank engagement will foster participation in decision-making for access to heating and energy affordability for underserved, female headed households, or poor rural and urban dwellers, as well as identify the ability to pay fees and upfront investment challenges.

17. Building on established support in the previous CPF period, the World Bank will continue to support reforms and investments in natural resources efficiency and enhanced climate resilience. Through the *Moldova Agriculture Competitiveness Project* (MACP), the Bank allocates funding for the integration of sustainable land management practices and technologies, as well as the restoration of anti-erosion shelterbelts on 57,000 hectares of land. The new *Agriculture Governance, Growth and Resilience Investment Project (AGGRI)* will support the climate resilience of Moldova's agriculture sector, including through irrigation upgrades and water-saving measures for farmers, climate-smart livestock and strengthening agricultural public institutions, while providing access to information and promoting direct participation and decision-making for women-led businesses and cooperatives in underserved areas. In the water sector, the *Moldova Water Security and Sanitation Project* aims to increase access to improved water supply, sanitation, and irrigation services in selected rural areas and small towns and thereby contributes to enhancing climate resilience and sustainable water management practices. The *Moldova Emergency Response, Resilience, and Competitiveness Development Policy Operation s*trengthens Moldova's disaster risk management and climate resilience capacities, enhancing the country's ability to prepare for and respond to natural disasters, including those exacerbated by climate change. Investments and reforms to support climate resilience and adaptation are underpinned by a series of ASAs, including *Reinforcing Weather and Climate Services,* which introduced urban rescue standards compatible with INSARAG and established a framework for climate services in Moldova, and the *Moldova Climate Change and Resilience Review*, which enhanced understanding of climate risk, adaptation challenges, and resilience needs for establishing a climate-sound society.

18. A planned Country Climate and Development Report (CCDR) will set the stage for enhanced WB support to Moldova. The Moldova CCDR, to be completed in the early part of fiscal year 2025, will provide analyses of interlinkages between climate change and Moldova's development objectives as well as deep dives of selected climate and development priorities, including sectoral and cross-cutting policies, investments, and institutional arrangements to encourage development with climate action through public and private sector interventions.

Statement by Mr. Luc Dresse, Alternate Executive Director for Republic of Moldova and Ms. Veronica Volociuc, Advisor to the Executive Director
December 6, 2023

On behalf of the Moldovan authorities, we thank the mission team, led by Ms. Mira, for the productive discussions in conducting the fourth review of the ECF/EFF program, the Article IV consultation, and the consideration of an arrangement under the Resilience and Sustainability Facility (RSF). The robust implementation of the ECF/EFF program, supported by the authorities' strong ownership and the Fund's technical assistance, has been instrumental in underpinning the authorities' efforts to successfully tackle multiple external shocks while catalyzing needed donor financing. It also contributed to the authorities' initial progress in enhancing energy security, diversifying the economy, and strengthening institutions. Concurrently, the requested RSF will help bolster the economy's resilience to climate-related shocks and shore up Moldova's energy security. The authorities are also grateful to staff for the focus in the Article IV discussions on growth-oriented reforms and for the insightful set of papers, including the compelling Selected Issues Papers. They broadly concur with the thrust of the staff analysis and recommendations.

Moldova is advancing in the EU integration process and EU membership represents its top priority. The Commission's recent recommendation to the European Council to open accession negotiations is an important milestone in Moldova's EU integration path. The authorities are aware that this will require even more ambitious reforms and large (public and private) investments to speed up convergence with the EU. The ECF/EFF program will continue to anchor Moldova's EU ambitions through policies aimed at ensuring macroeconomic and financial stability and advancing the anti-corruption and governance agenda, critical for promoting inclusive and green growth.

Recent Economic Developments, Outlook, and Risks

The economy is showing signs of recovery and risk perceptions are improving. After contracting by 5 percent in 2022, largely due to the knock-on effects of Russia's war in Ukraine, the energy crisis, and drought, growth remained negative in H1 2023, as domestic demand remained weak. As food and energy prices eased and the energy crisis abated, inflation continued its swift deceleration path, reaching 6.3 percent in October 2023 (from a peak of 34.6 percent one year earlier), thereby lessening the effects of the cost-of-living crisis. Growth is expected to gain momentum in the second half of the year and is projected to reach 2 percent in 2023. It will be supported by a pickup in agricultural production, improved investment, and consumption, as a result mainly of monetary easing and real wage increases. However, credit growth remains subdued as the effect of the policy rate cuts hasn't fully materialized and fiscal impulses were weaker than anticipated. At 5 percent of GDP, the 2023 fiscal deficit is expected to be lower than envisioned in the program (6 percent of GDP), driven by budget under-execution to a larger magnitude than revenue underperformance. The public debt remains sustainable, and the risk of external debt distress is low. The current account deficit narrowed to 12.4 percent of GDP in H1 2023, reflecting an improvement in services and income balances, while exports of goods remain weak. Foreign exchange reserves are being held at a comfortable level, exceeding 5 months of imports and above the Fund's reserve adequacy metric. The banking sector remains sound and resilient, as banks are well-capitalized, profitable, and with deposits and liquidity buffers exceeding pre-war levels.

However, spillovers from Russia's protracted war in neighboring Ukraine are expected to further hamper Moldova's economic opportunities and growth prospects. Supported by a gradual recovery in domestic demand and stronger growth of trading partners, GDP growth is assumed to further recover in 2024, to 3.9 percent. Nonetheless, it will remain below the pre-war forecast and the war-induced shocks will keep the output gap negative. The outlook is subject to significant downside risks and uncertainties, mainly stemming from additional energy shocks or a further escalation of the war or destabilization in the region, which could lead to new waves of refugees from Ukraine. Against this background, the authorities continue to prioritize further strengthening state institutions and to update their contingency plans to shield the economy and households should risks materialize. At the same time, accelerated progress towards EU accession represents an important upside risk.

Although energy security risks eased, strengthening energy resilience, and protecting the most vulnerable remain critical. With financial assistance from international partners, Moldova has managed to overcome multiple energy crises since October 2021. It has now reached a state of relative stability in energy supply, reinforced by a diversified gas supply, while measures are underway to improve the diversification of electricity supply as well. However, as risks and challenges persist, the authorities are pushing forward to further ensure energy security and protect the most vulnerable. They are aligning the domestic legal framework with the EU regulations and are building up gas storage to enter the winter season prepared. Transfers to the vulnerable, including through the Energy Vulnerability Reduction Fund (EVRF) continue to cushion the impact of the overlapping crises. Due to lower energy prices and favorable weather conditions, the EVRF achieved 25 percent savings. At the same time, the authorities prepared an action plan for the 2023-24 heating season that considers different energy-supply scenarios and identifies preventive and mitigating measures, including potential financial support from international partners.

Performance Under the Program and Request for an RSF

Despite the challenging environment, program performance remains strong, and the ECF/EFF will continue to anchor the government's reform agenda. By the end of June, all quantitative performance criteria (PCs), continuous PCs, the inflation consultation clause, and all but one indicative targets (ITs) were met. Only the IT on targeted social spending was missed because of savings in the EVRF. All structural benchmarks (SBs) for the completion of the fourth review were met (one even ahead of time), and the authorities are well advancing toward the completion of some end-December SBs. To complete the establishment of the institutional anti-corruption framework corrective measures have been taken as a prior action. The jurisdiction of the Anti-corruption Prosecution Office (APO) was reinstated over all (i) corruption-related offenses listed in the UN Convention Against Corruption as committed by (ii) high-level officials. The relevant amendments will enter into force in March 2024. Considering the complexity of the authorities' reform agenda, they request a 6-month extension of the ECF/EFF arrangements.

To foster reforms aimed at enhancing resilience to climate-related shocks, the authorities are requesting an RSF arrangement, with 75 percent of quota. Their request is underpinned by the solid track record of the ECF/EFF program implementation and the robustness of the policy and reform agenda. Informed by several diagnostics, including C-PIMA, pre-CCDR, and CPAT, alongside Moldova's Nationally Determined Contribution (NDC), and EU accession commitments, the RSF aims to support the authorities' efforts to deepen and accelerate climate-related and energy reforms, safeguard BoP stability, and catalyze financing for adaptation and mitigation.

Near-term and Long-term Macroeconomic Policies and Structural Reforms

The policy response and reforms going forward will be aligned with the EU accession agenda, focusing on supporting the recovery while advancing long-term reforms to foster sustainable and inclusive growth. To this end, and as reflected in the MEFP, the authorities' efforts will be centered on strengthening fiscal and financial sector governance, improving business and labor market conditions, and addressing climate-related and energy security risks.

While the 2024 budget aims at a moderate consolidation, it will sustain growth-enhancing reforms, and energy security, and protect the most vulnerable from shocks. For 2024, the authorities target a fiscal deficit of 4.6 percent of GDP, and the consolidation is planned to be delivered through both revenue and expenditure measures. Revenue mobilization will be achieved by reducing tax expenditure, broadening the VAT base and reducing exemptions, and increasing excises on tobacco and alcohol. Expenditure will prioritize growth-enhancing components such as infrastructure, private sector development, alongside better-targeted EVRF and social assistance programs.

The medium-term budgetary framework (MTBF) aims at gradually reducing the fiscal deficit (to 3.1 percent of GDP by 2027), while further supporting growth-enhancing spending and maintaining debt sustainability. In this context, the authorities envisage additional reforms in tax policy and revenue administration, advancing on the planned cost-benefit analyses to phase out tax expenditures and improve expenditure efficiency following the implementation of PFM and PIM reforms. Building on actions to strengthen public investment management and MTBF preparation, the authorities will continue to improve budget execution in support of developmental objectives. Concomitantly, they will further intensify efforts to contain fiscal risks, including through ongoing SOE sector reforms. The reforms envisage a triage of SOEs by the end of 2023, supported by the recently approved methodology. Beyond 2023, the objective is rationalizing the number of loss-making or non-strategic-sector SOEs, alongside a privatization strategy.

The authorities consider the current monetary policy stance to be appropriate and will continue to pursue careful calibration. At 6.3 percent in October 2023, inflation returned to the NBM's fluctuation band (5 +/-1.5 percent). Given the decelerating inflation, the National Bank of Moldova (NBM) further lowered its monetary policy rate to 4.75 percent in November 2023 (from a peak of 21.5 percent in August 2022). Going forward, monetary policy decisions will be guided by forward-looking and data-driven considerations. The NBM will continue to improve the inflation-targeting framework to ensure better policy transmission.

Reforms in the financial sector are directed at strengthening its resilience. In July, the regulation and supervision of insurances, non-bank credit organizations, savings and loan associations, and credit registries were transferred from the National Commission for Financial Markets (NCFM) to the NBM. This will allow for integrated prudential regulation and supervision of all segments of the financial sector, thus reinforcing systemic risk supervision. Moreover, the insurance sector will undergo a balance sheet review to assess the readiness of insurers for implementation of Pillar I of Solvency II. Mindful of the uncertain environment, the NBM also developed a targeted review of the bank resolution framework in line with best practices and is close to finalizing an update of the bank liquidation framework. At the same time, the NBM will continue to monitor risks and update its contingency plans.

The authorities are also taking steps towards improving financial inclusion. For that reason, the NBM will soon launch an instant payment scheme and is preparing a PSD2-based open banking system later in 2024. It is advancing with the application for the Single Euro Payments Area (SEPA) membership as well. To protect the financial sector from illicit financial flows, the NBM works on enhancing the monitoring of cross-border payments, including by strengthening the AML/CFT framework.

The authorities see scope for strengthening the independence of the NBM in order to ensure the effectiveness of monetary policy and maintain macroeconomic and financial stability. Therefore, they will further strengthen the autonomy of the NBM by enhancing its operational framework and mandate. More specifically, they will grant the NBM operational autonomy over its assets, remove inappropriate deadlines for NBM supervision, and add an explicit NBM mandate for financial stability and macroprudential policy. In addition, the measures will envisage staggering the mandate of the NBM Supervisory Board members. Going forward, the authorities are interested in the Fund's Technical Assistance to conduct a Voluntary Central Bank Transparency Review of the NBM.

The authorities are committed to advancing the structural reform agenda to promote sustainable growth. The anti-corruption agenda, focusing on high-level corruption, remains at the forefront of efforts to strengthen the business environment and support long-term growth. Beyond reinstating APO's mandate over all types of corruption-related offenses committed by high-level officials, the authorities are consolidating its budgetary independence and will continue strengthening the capacity of APO to better fulfill its mandate. Work on the establishment of an anti-corruption adjudication infrastructure to speed up credible adjudication of corruption cases is ongoing. Furthermore, the authorities will step up efforts to continue improving the business environment by simplifying procedures and regulations and stimulating digitalization. The efforts will also include measures to increase labor participation and boost productivity.

The reform measures under an RSF arrangement will help the authorities address a series of barriers to building climate resilience, accessing sustainable finance, and securing energy supply. They will encompass four large areas: (i) strengthening the legal and institutional infrastructure, including the Law on Climate Action, enabling low-carbon development, developing a Disaster Risk Management program, and natural disaster risk and vulnerability maps; (ii) promoting energy transition, encouraging private sector participation in renewable energy, ensuring cost-recovery in the energy sector, incentivizing efficient energy consumption, and boosting energy efficiency in buildings; (iii) promoting green and resilient infrastructure investments through strengthening project planning, selection and budgeting, and monitoring and evaluation, while considering macro-fiscal risks associated with climate change, and (iv) ensuring sustainable finance mobilization and financial sector resilience, including through the implementation of a sustainable finance taxonomy.

Conclusion

Given the strong program performance under the ECF/EFF, underpinning the ambitious governance and development agenda, the authorities request the completion of the fourth review under the ECF/EFF, as well as the approval of the RSF arrangement. Considering the complexity of the authorities' reform agenda to be implemented in the medium-term, they also request a 6-month extension of the ECF/EFF arrangements.

The Moldovan authorities remain dedicated to preserving macroeconomic and external stability and achieving robust, green, and inclusive growth. In this vein, they are committed to further implementation of the ECF/EFF program, supported by the RSF, which will anchor the authorities' policies and ambitious reform agenda. **Both arrangements will be instrumental in supporting the authorities in pursuing Moldova's EU accession path.**