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REPUBLIC OF MOLDOVA

April 2023

THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND THE EXTENDED FUND FACILITY ARRANGEMENTS, AND REQUEST FOR A WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF MOLDOVA

In the context of the Third Reviews Under the Extended Credit Facility and the Extended Fund Facility Arrangements, and Request for a Waiver for Nonobservance of Performance Criterion, 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 April 26, 2023, following discussions that ended on March 14, 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 April 6, 2023.
- A **Statement by the Executive Director** for Republic of Moldova.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR23/128

IMF Executive Board Concludes Third Review Under the Extended Credit Facility and Extended Fund Facility Arrangements for the Republic of Moldova

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the third review under the Extended Credit Facility/Extended Fund Facility (ECF/EFF) arrangements with Moldova, allowing for an immediate disbursement of about US$96 million (SDR 70.95 million).
- Moldova remains in a precarious position. Russia's war in Ukraine and its proximity to Moldova continue to fuel security concerns, while the social fabric remains fragile and stretched by high food and energy prices.
- Prudent use of contingency plans has helped reduce energy security risks and supported the most vulnerable through the cost-of-living crisis. Continued strong reform implementation—supported by the program—helps build solid foundations for sustainable long-term development.

Washington, DC – April 26, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the third review under the 40-month 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$96 million), usable for budget support, and brings Moldova's total disbursements under the blended ECF/EFF arrangements to SDR 277.55 million (about US$371 million).

Moldova's economy contracted sharply in 2022, reflecting spillovers from the war; a modest recovery is expected in 2023. Inflation remains high but continues to decline rapidly. Fiscal policies are focusing on mitigating the impacts of the overlapping crises and supporting economic recovery. Risks to the energy sector have abated for now, reflecting authorities' prudent use of contingency plans. Nevertheless, the outlook remains subject to extreme uncertainty, primarily due to risks of further escalation of the war. Moldova's program implementation remains strong despite this challenging environment, notably with recent completion of important reforms, which can help promote the integrity, capacity, and independence of key anti-corruption institutions and enhance enforcement of the anti-corruption legal framework.

[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 40-month 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).

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Washington, DC 20431
USA

Following the Executive Board discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, made the following statement:

"Moldova remains in a precarious position due to overlapping crises. Russia's war in Ukraine and its proximity to Moldova continue to fuel security concerns. The social fabric remains fragile and under pressure from high food and energy prices. In this context, the new government has emphasized its commitment to reforms, and program implementation remains strong despite the challenging environment.

"The economy contracted sharply in 2022, in the wake of suppressed demand from the soaring cost of living, spillovers from the war, and weaker agricultural production. A modest recovery is expected in 2023, supported by a pickup in domestic demand and better growth prospects in trading partners. Inflation continues to decelerate, and fiscal indicators remain robust. International reserves continue to provide an adequate safeguard against external shocks; while well-capitalized, liquid, and profitable banks have weathered the initial impact of the war.

"As the outlook is subject to high uncertainty, near-term priorities should remain focused on mitigating the impact of the war, ensuring energy security, adapting contingency plans to evolving risks, and maintaining an appropriate policy mix. Once near-term pressures from the crises subside, the authorities appropriately plan to reorient spending toward supporting the recovery. The current gradual monetary policy easing is appropriate given the inflation outlook. At the same time, future monetary policy decisions should remain data-driven and forward looking, with further easing being conditional on a persistent decline of both headline and core inflation.

"The authorities have implemented important reforms to strengthen anti-corruption and the rule of law. It will be essential to advance reforms in other areas, including fiscal governance, financial sector oversight, and governance and efficiency of state-owned enterprises. The authorities are also developing an ambitious agenda to address climate-related challenges. They have expressed interest in receiving financing under the IMF's Resilience and Sustainability Facility to support their climate-related policy and development goals and to help catalyze official and private financing for green investments."

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

April 6, 2023

THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND THE EXTENDED FUND FACILITY ARRANGEMENTS, AND REQUEST FOR A WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION

EXECUTIVE SUMMARY

The Moldovan economy contracted sharply in 2022; a modest recovery is expected this year. Spillovers from Russia's war in Ukraine, high inflation and depressed demand, and weaker agricultural production all contributed to contraction in 2022. Recovery this year is supported by a pick-up in domestic demand and better growth prospects of trading partners. Inflation has decelerated as the National Bank reacted proactively to contain second-round effects and anchor expectations. Fiscal indicators remained robust in 2022, reflecting higher revenues, grants, and continued budget under-execution. International reserves continue to provide adequate safeguards against shocks; well-capitalized and liquid banks have weathered the impact of the war. The outlook is subject to high uncertainty related to the war and energy security risks.

Policies continue to appropriately focus on mitigating economic and social fallout of the war and the energy shock. Risks to energy security have abated with prudent use of contingency plans; the authorities will continue to update plans and policies in an evolving risk landscape. As energy and cost-of-living pressures subside, they will rightly reorient spending to economic recovery, including via increased infrastructure outlays. The authorities are devising an ambitious reform agenda to address challenges posed by climate change and have expressed interest in financing under the IMF's Resilience and Sustainability Facility (RSF). The mission held preliminary discussions on policy priorities; discussions are expected in the fall with the fourth ECF/EFF review.

Program implementation remains strong. The new government emphasized its commitment to reforms under the program, a key anchor for response to evolving risks and recovery. All end-December quantitative performance criteria (PC), indicative targets, and the inflation consultation clause, were met. The end-March structural benchmark on fiscal governance has been met. The authorities are requesting a waiver of non-observance of the continuous PC on non-accumulation of external arrears due to the temporary nature of the breach and corrective measures put in place.

Staff supports the completion of the third review and the authorities' waiver request. The authorities' strong ownership and firm commitment to reforms and sound crisis and economic management warrant continued Fund support.

Approved By **Mark Horton (EUR) and Maria Gonzalez**	Discussions were held in person and remotely during March 1–14, 2023. The mission met with Prime Minister Recean, Deputy Prime Minister and Minister of Economy Alaiba, Minister of Finance Sireţeanu, Minister of Energy Parlicov, Minister of Justice Mihailov-Moraru, Minister of Labor and Social Protection Buzu, Governor of the National Bank of Moldova Armaşu, Chair of the National Commission for Financial Markets Cozlovschi, General Director of the Public Property Agency Musteață, and other senior officials and representatives of financial institutions, international organizations, and NGOs. The mission team comprised R. Atoyan (head), C. Mira (incoming mission chief), A. Fouejieu, M. Marinkov, M. Patnam (all EUR), C. Gomez Osorio (FAD), K. Kao (LEG), B. Nandwa (SPR), J. Podpiera (MCM), and R. Chawani (resident representative). A. Kammer (EUR Director) joined the team March 9-10. L. Dresse and V. Volociuc (OED) attended the meetings. D. Zhao and C. Piatakovas (both EUR), and staff from the office in Chişinău assisted the mission.

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CONTEXT

1. **Moldova remains in a precarious position due to overlapping crises.** Russia's war in Ukraine and its proximity to Moldova continue to fuel security concerns. Moldova hosts more Ukrainian refugees per capita than any other country, and the government is providing assistance to some 90,000 refugees (4 percent of the population). Moldova's social fabric remains fragile and stretched by high food and energy prices.

2. **The new government in place since late-February has emphasized its commitment to reforms under the ECF/EFF.** Despite the challenging environment, transition to the new government was smooth, and political instability risks now seem less pronounced. The authorities have delivered a strong pro-reform message with key priorities—strengthening of state institutions, supporting recovery—fully aligned with program objectives. They also plan to bolster responses to the current shocks, contingency planning,[1] and state security.

3. **Risks to energy security have abated for now, reflecting prudent use of contingency plans.** Sufficient gas reserves were accumulated for the 2022–2023 winter season supported by an EBRD credit line and budgetary resources. The authorities continue re-stocking gas reserves (in Ukraine), taking advantage of lower European prices. They also rely on a month-to-month contract with MGRES—an electricity producer owned by the Russian company Inter-RAO located in the breakaway Transnistria region—for continued supply of electricity at a beneficial price.[2] In March, 88 percent of total electricity demand was met by MGRES, 10 percent domestically, and the remainder by suppliers in Romania. This structure, if maintained, will help contain electricity costs. Should needs arise, resorting to EU traders or spot market acquisitions would come at a higher cost; cross-border capacity remains limited.

4. **Growth in 2022 was lower than expected.** Real GDP contracted by 5.9 percent (preliminary), driven by sharp contractions in private investment (-8.5 percent) and consumption (-3.9 percent), brought on by the soaring cost of living. Weaker-than-anticipated agricultural production due to adverse weather conditions, impacts of trade disruptions on exports (Annexes II and III), and the ex-post tighter-than-expected policy mix further depressed activity. Headline inflation declined to 25.9 percent, yoy, in February 2023 (from a peak of 34.6 percent in October); food and energy remain key drivers. Real wages contracted by over 10 percent in 2022Q4, yoy, and the unemployment rate increased to 4.6 percent in December. The overall fiscal deficit reached 5.5 percent of GDP by end-2022—including recapitalization of Energocom to secure gas reserves.[3]

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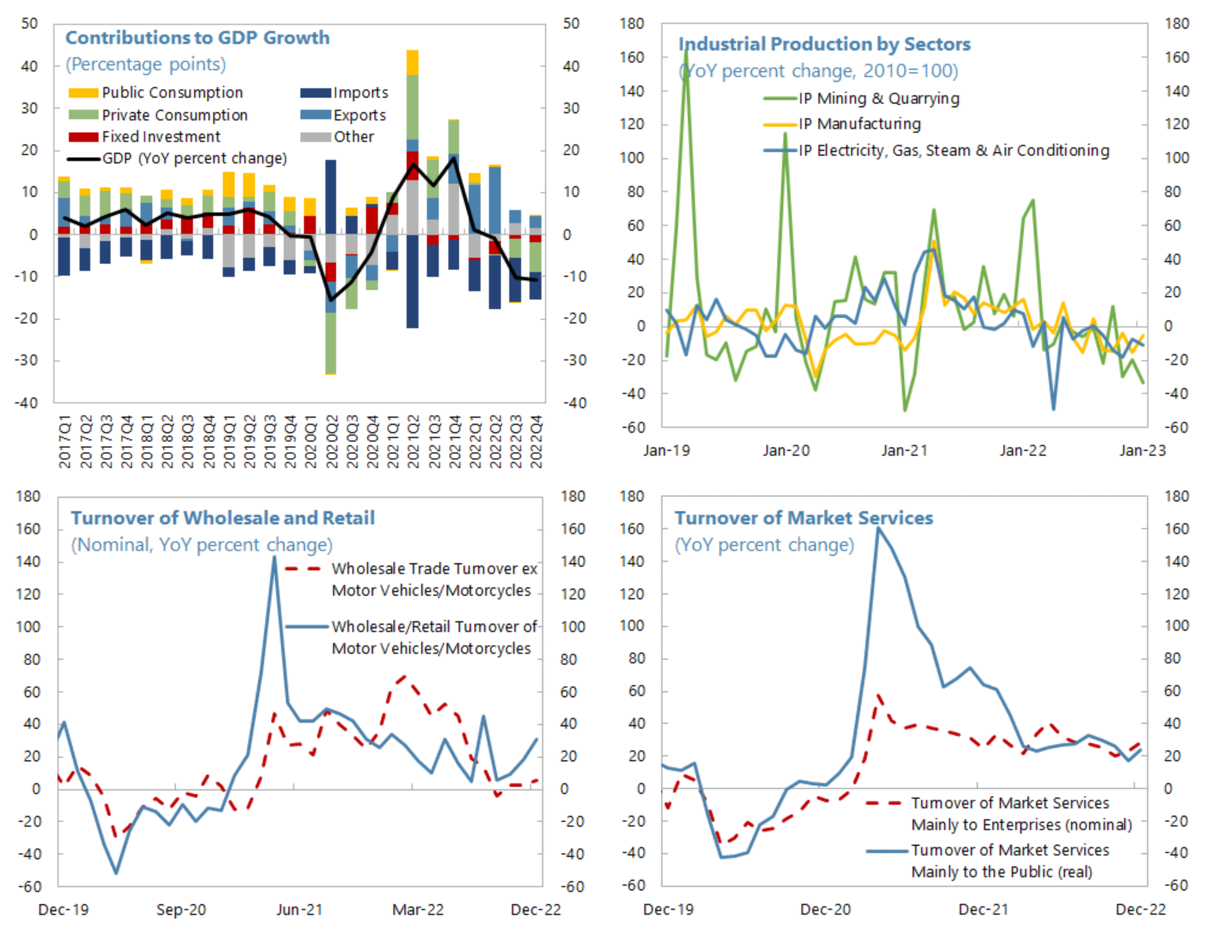
[1] See Table 1 (Contingency Planning), IMF CR 23/6.

[2] Last October, citing gas shortages, MGRES—historically, Moldova's primary supplier—reduced substantially supplies, necessitating procurement from spot markets abroad. The authorities secured supplies from Romania through ENTSO-E and emergency-supply contracts, but capacity remained constrained, with quantities volatile and prices higher (MEFP ¶24, IMF CR 23/6).

[3] Excluding recapitalization, the deficit was 3.3 percent of GDP. Recapitalization was part of the authorities' contingency plan (Table 1, IMF CR 23/6). Energocom support was carried out August-November 2022 totaling MDL 9.3 billion (3.4 percent of GDP), of which MDL 3.2 billion (1.2 percent) was on-lending financed by the EBRD. The

(continued)

The current account deficit widened to 14 percent of GDP in 2022, driven by higher energy prices. Despite appreciating in recent months, the exchange rate remains about 4 percent below pre-war level. External financing, higher remittances, and interest-rate differentials helped boost foreign reserves to about $4.5 billion by end-February.



Sources: National Bureau of Statistics, and IMF Staff Calculations.

5. **The financial sector remains sound**. Banks retain adequate capital and liquidity positions, with favorable profitability. Domestic bank credit growth is decelerating, standing below the long-term trend. The NBM appropriately kept the counter-cyclical capital buffer at zero percent and the systemic risk buffer at 1 percent. The continued sharp deceleration of household credit in part reflects debt service-to-income (DSTI) and loan-to-value (LTV) thresholds introduced in mid-2022.[4]

remainder (MDL 6.1 billion, or 2.2 percent) was recapitalization, classified above-the-line as an expense and domestically financed through drawing down the cash balance.

[4] Box 3, IMF CR 23/6

OUTLOOK AND RISKS

6. A modest recovery is projected in 2023, with elevated short-term risks, while the medium-term impact of the war is estimated to be significant.

- **Real GDP growth** is projected at 2 percent in 2023 (compared to 1.5 percent in the second review), reflecting several factors that partially offset the negative carryover from 2022: (i) the drag on consumption should subside, with inflation projected to fall more rapidly than earlier anticipated and monetary easing supporting credit; (ii) higher public-sector salaries and pensions should support consumption; (iii) agricultural output should rebound in 2023; (iv) faster recovery of trading partners should boost external trade; and (v) the relatively-looser overall policy mix and lower-than-anticipated global energy prices should also support demand. Robust medium-term growth is projected, boosted by recovery of domestic consumption and investment, as the impact of the war dissipates, implementation of reforms, and progression of Moldova's EU candidacy. However, a negative output gap will persist in the medium-term and scarring is estimated to be significant, with the level of real GDP in 2026 expected to be about 14 percent below its pre-war forecasts.

- **Inflation** is projected to decelerate rapidly in 2023, on account of the high 2022 base effect, moderation of global commodity prices, and more gradual recovery of consumption, falling within the National Bank's (NBM) target band in early 2024.

- **The current account** deficit is expected to moderate to 12 percent of GDP this year, before narrowing toward its pre-pandemic average of about 8 percent of GDP in the medium term, supported by the envisaged uptick in exports as Moldova continues to re-orient and increase its trade with the EU and the rest of the world (Annex II and III), as well as lower energy and food import bills.

- **The fiscal deficit** is projected to widen to 6 percent of GDP in 2023, assuming full budget execution and reflecting policies to mitigate purchasing-power erosion, reduce energy poverty, ensure energy security, and support recovery.

- **Public debt** is projected to peak at 37.1 percent of GDP in 2025 but remains sustainable; overall risk of debt distress is assessed as moderate.[5] External debt remains at low risk of distress, with a large share owed to multi-/bilateral lenders at concessional conditions.

7. Risks remain high and tilted to the downside, with the outlook subject to extreme uncertainty (Annex I). Further escalation of the war and new waves of refugees or deterioration of security and economic conditions in Transnistria could put additional pressures on public finances. Political instability, including due to the upcoming local elections or social discontent induced by high living costs, could jeopardize reform momentum and undermine donor funding. Prolonged or

[5] See Annex IV (DSA), IMF CR 23/6.

additional energy shocks could aggravate Moldova's economic outlook, resulting in fiscal and balance of payments pressures, stifled consumption, and output losses. Should inflationary pressures increase, confidence deteriorate further, or additional external shocks occur, policy trade-offs may become even more challenging. Social tensions over the cost-of-living crisis and discontent over—appropriate but difficult—policy decisions may upset Moldova's fragile socio-political equilibrium. However, faster recovery in domestic demand and a stronger rebound in activity of trading partners present upside risks.

8. **The authorities concurred with staff's assessment of the outlook and risks.** They underscored risks to state security, including frequent anti-government protests. Although risks to energy security have abated for now, the authorities remain concerned about renewed disruptions in energy supplies. Accordingly, they are developing contingency plans, and if risks materialize (¶7), will seek additional support from the IMF and external partners.

PROGRAM PERFORMANCE

9. **Program performance continues to be strong on the quantitative front, but the challenging context has resulted in some delays in structural reforms.** While helping formulate comprehensive crisis responses, the blended ECF/EFF arrangements also continue to support the authorities' development vision—outlined in Moldova's Poverty Reduction and Strategy Paper—through structural reforms that address pressing needs and strengthen governance and institutional frameworks.

- **Quantitative performance criteria (QPCs) and indicative targets (ITs)**: All end-December QPCs and ITs have been met (MEFP Table 1).
- **Continuous PC** on non-accumulation of arrears was breached between February 1 and March 31, 2023 (¶16), for which a waiver of non-observance is requested.
- **Inflation consultation band**: December inflation was 30.2 percent (y/y), falling within the inflation consultation band.
- **Structural conditionality:** Two **prior actions** (**PAs**) on anti-corruption and rule of law, related to missed end-December structural benchmarks (SB), are on track of being met by the Board meeting (PA1 and PA2, MEFP Table 2). The end-March SB on fiscal governance has been met (SB6, MEFP Table 2).

POLICY DISCUSSIONS

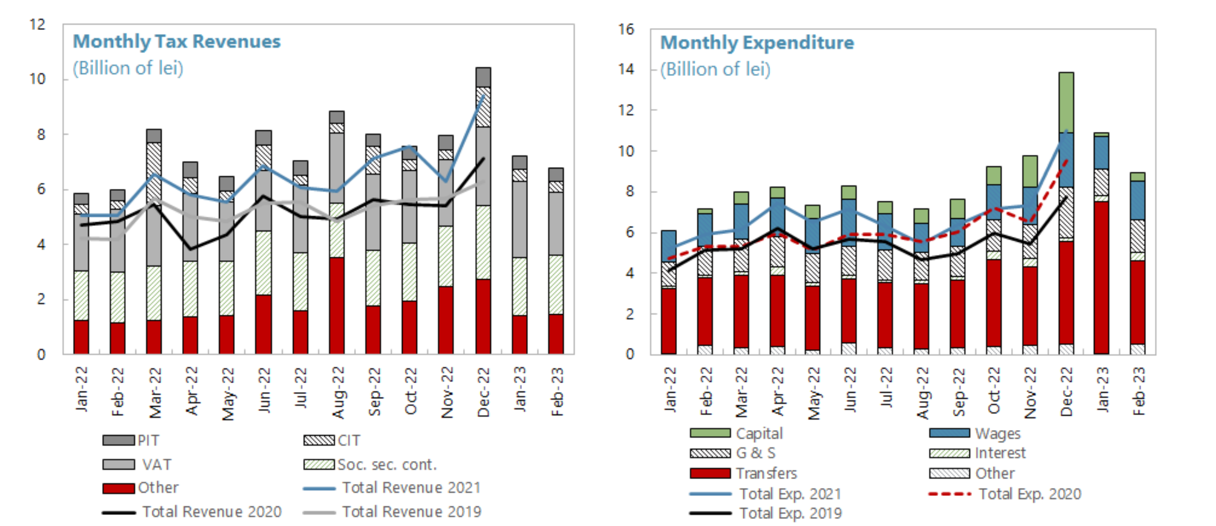
10. **The highly uncertain environment and the persistent negative output gap call for carefully calibrated policy mix.** To strengthen the near-term resilience and support short-to-medium-term economic recovery, the authorities should maintain a sustainable fiscal stance and reduce inflation to adequate levels. As risks from the overlapping crises abate, policies should be

gradually reoriented toward supporting domestic demand while building strong structural fundamentals to boost long-term growth.

A. Fiscal and Energy Sector Policies

Background

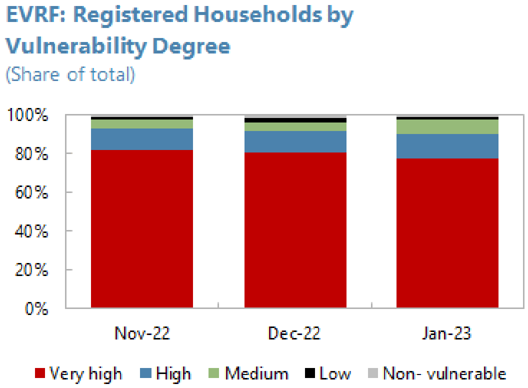
11. Fiscal revenues remained robust, while expenditure was largely driven by current spending on targeted transfers to households, wages, and securing gas supplies. In 2022, revenues excluding grants were 0.3 percent of GDP above target, boosted by an inflationary effect on VAT and corporate income tax. Excises grew moderately (by 6 percent) due to lower consumption and trade disruptions caused by the war. Past budget under-execution continued, particularly on goods and services and capital expenditures. Financing was in line with expectations (Table 1). As of end-February 2023, the cash buffer stands at MDL 1.9 billion (0.7 percent of GDP), resulting from strong external support, revenue over-performance, and expenditure under-execution.

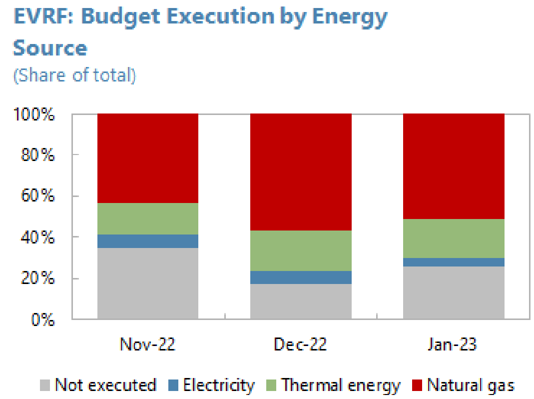


Source: Ministry of Finance.

12. The authorities successfully implemented the targeted Energy Vulnerability Reduction Fund (EVRF). Almost 80 percent of the registered households were classified as very highly vulnerable across five categories based on welfare indicators, income proxies, family characteristics, type of heating system, and consumption levels.[6] Benefitting from lower international energy prices and favorable weather, the scheme has realized monthly savings of about 20–30 percent of the total estimated cost of about MDL 1 billion a month, providing a welcome buffer for the 2023–24 heating season. The authorities are working with UN agencies to further improve EVRF targeting (MEFP ¶14).

[6] The categories are very high, high, medium, low, and no vulnerability.





Source: Ministry of Labor and Social Protection.

Policies

13. Critical social and macroeconomic priorities will be pursued in 2023 to mitigate the impact of multiple crises. The 2023 budget—approved as a prior action for the second review—appropriately envisages a 6 percent of GDP deficit and prioritizes measures to respond to the cost-of-living crisis, ensure energy security, and to address low capacity in the civil service and retain qualified staff. Expenditure priorities include: (i) pensions adjustment in line with growth in social security contributions (1.2 percent of GDP) and higher allocations for existing social assistance programs, including the Ajutorul Social Program and APRA heating assistance (0.5 percent of GDP); (ii) mitigation of purchasing power erosion for civil servants (0.5 percent of GDP); and (iii) implementation of the targeted energy poverty reduction scheme (1.6 percent of GDP) to protect the most vulnerable. On the revenue side, efforts to widen the tax base and support recovery will continue (MEFP ¶12), through: (i) widening the VAT base by removing exemptions on specific imported items, (ii) applying higher excises for tobacco and alcohol (in line with EU accession); (iii) providing support to small, micro, and medium-sized enterprises (SMMEs) through the approved zero-rate on undistributed income (subject to a sunset clause by 2025) to support their liquidity positions, and (iv) providing support to the private sector through accelerated depreciation of investments.

14. As pressures from the energy and cost-of-living crises subside, spending priorities will be reoriented toward supporting recovery. Towards this objective, the authorities plan to prepare a supplementary budget that will reflect the most recent fiscal developments while maintaining the agreed program deficit target and preserving adequate contingency buffers to safeguard energy security (MEFP ¶9). Should downside risks materialize (¶7), further reprioritization of expenditure and savings from items that tend to be under-executed (such as goods and services and capital investment), as well as budget contingencies will help absorb unforeseen costs. The contingency budget in 2023 stands at 1.9 percent of GDP, of which 1.6 percent of GDP is earmarked for the EVRF and 0.3 percent is a non-earmarked contingency.

15. Medium-term fiscal policy aims to balance development spending needs with fiscal discipline and debt sustainability. Revenue mobilization efforts will be rooted in advancing tax administration reforms and reducing tax expenditures (SBs 6–9, MEFP Table 2). On the expenditure side, the focus will be on phasing out crisis-related spending, while safeguarding social assistance and gradually increasing the level and execution of pro-growth development spending, including green projects, while ensuring the sustainability of pension system and an efficient budget spending composition as envisaged at program approval. The medium-term budgetary framework envisages a gradual reduction of the general government deficit from around 4.6 to 3.1 percent of GDP in 2024–27. Staff reiterated that securing additional grants and concessional financing from donors will be critical over the medium term to reduce reliance on expensive, short-term domestic financing, as evidenced by the authorities' 2023-24 borrowing plans (Table 1).[7]

Table 1. Moldova: External Borrowing Plans 2023–24
(In million, USD)

PPG External Debt Contracted or Guaranteed 1/	2023 Volume of new debt	2023 Present value of new debt	2024 Volume of new debt	2024 Present value of new debt
Sources of debt financing	**1,092.53**	**894.06**	**658.34**	**539.65**
Concessional debt, of which 2/	**412.95**	**254.30**	**212.80**	**136.96**
Multilateral debt	308.91	202.57	212.68	136.92
Bilateral debt	104.03	51.74	0.12	0.04
Non-concessional debt, of which	**679.58**	**639.75**	**445.54**	**402.69**
Semi-concessional debt	679.58	639.75	445.54	402.69
Commercial terms				
Uses of debt financing	**1,092.53**	**894.06**	**658.34**	**539.65**
Project Investment	465.44	402.27	331.41	259.44
Budget financing	627.08	491.79	326.93	280.21

Source: Ministry of Finance.
1/ Contracting and guaranteeing of new debt excluding IMF. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
2/ Debt with a grant element that exceeds a minimum threshold. The minimum is typically 35 percent.

16. Russia has terminated its moratorium on debt repayments, resulting in a temporary accumulation of external arrears.[8] The Ministry of Finance of Russia sent a letter on January 23

[7] In the medium term, the authorities are also contemplating the placement of Eurobonds and green bonds on international markets once conditions improve. They plan to apply for sovereign ratings from international rating agencies. A pipeline of green projects to be financed via green bonds and private financing will also be developed.

[8] In December, the authorities confirmed that they have overdue financial obligations to Russia due to sanctions-related payment restrictions, but that the Russian authorities extended a moratorium on these payments. These obligations stem from old commercial debt contracted in 2001 which totaled about $91 million (0.6 percent of GDP),

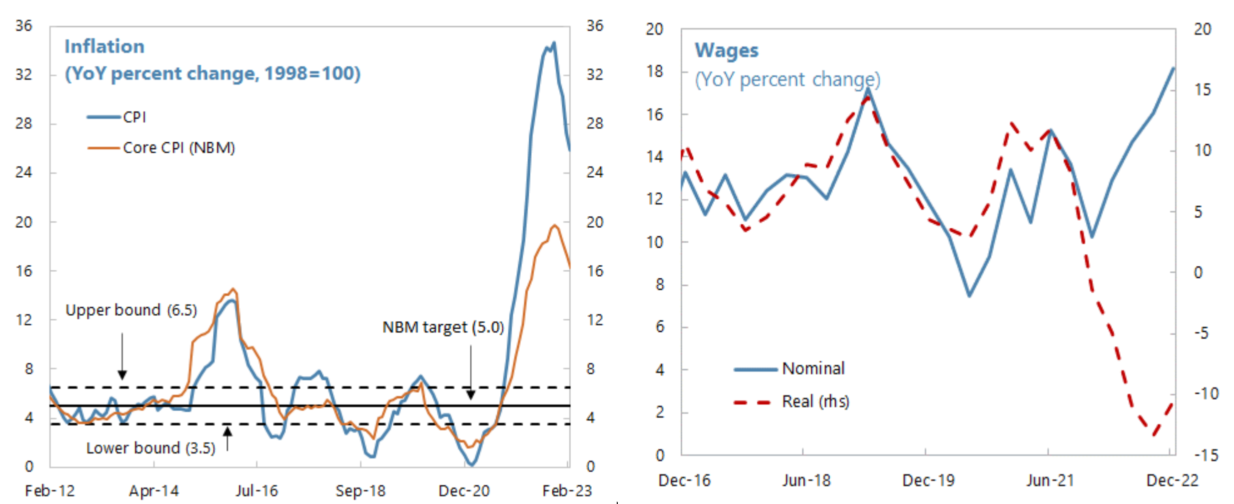
(continued)

asking for immediate payment of the USD-denominated debt in rubles to avoid accumulating fines. The authorities responded on January 30, stating that the change of payment currency requires an amendment to the contract and requesting discussions on options to meet the obligations. The Russian Ministry of Finance proposed further consultations on potential amendments to the agreement and discussions are ongoing. In line with the Technical Memorandum of Understanding (TMU ¶13), the authorities created an escrow account at the NBM on March 31 and deposited the outstanding amounts in USD, the original contract currency (MEFP ¶16). The purpose of creating an escrow and depositing the overdue payments there are to secure the overdue payments to the creditor so that they can be repaid as soon as circumstances (sanctions) permit or another repayment arrangement is found with the creditor. Consequentially, setting such an escrow resolves the accumulated external arrears, as per the TMU, and is in line with the Fund's arrears policy.

B. Monetary and Exchange Rate Policies

Background

17. Inflation remains high but continues to decelerate. Core inflation appears to have peaked. The contraction in real wages suggests that a price-wage spiral has been limited and that second-round effects seem to be contained so far. The leu has appreciated against dollar by about 4 percent since early December (but remains below its pre-war level) supported by strengthened confidence, tight monetary conditions, and robust external support, with the NBM continuing to rebuild its reserve buffers. Consensus forecasts consistently point to anchored expectations, with the two-year inflation forecast at 6.4 percent within the NBM's target band (5±1.5 percent). Yields on government securities have been steadily reducing in recent months from their peaks in 2022 (as of January 2023 the yield on two-year bonds is 7 percent below its 2022 peak).

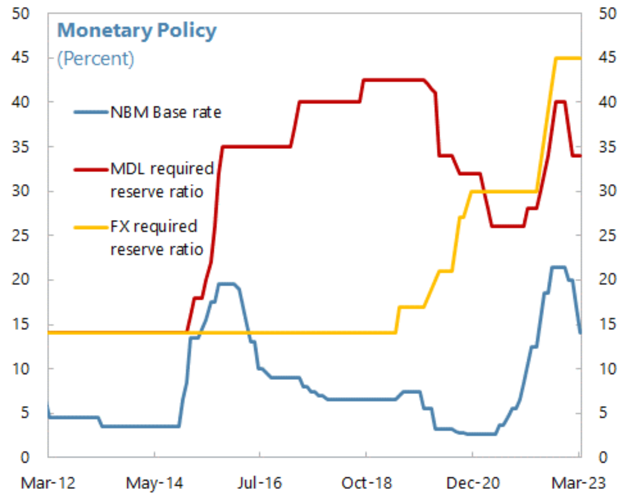


Sources: National Bureau of Statistics, and National Bank of Moldova.

with current amount outstanding around $14 million (0.1 percent of GDP). The authorities have earmarked funds in the 2023 budget to pay this debt in full. No repayments on this claim are due beyond the amount escrowed.

Policies

18. The NBM's monetary policy remains forward-looking, data-driven, and aligned with its inflation targeting strategy. The recent policy easing is appropriate and supported by a faster-than-anticipated deceleration of inflation in the near-term (Box 1), on account of a worse cyclical economic position, a weaker-than-expected-fiscal impulse (given under-spending execution), tight financing conditions arising from implementation of macroprudential measures, and moderating global energy and food prices. The significantly high ex-ante real interest rate, including compared to peer countries, warrants a gradual and well-calibrated easing to avoid an unduly tight stance which may weaken economic activity leading to higher NPLs and create other imbalances including on the FX market.[9]



19. Further monetary easing should remain gradual and guided by firm data on continuously declining trends of headline and core inflation. Staff reiterated that the NBM should stand ready to adjust the pace of normalization if inflation proves to be more persistent than anticipated or second-round effects emerge.[10] Continued development of the financial market and further capital account liberalization, carefully tailored to market conditions in the aftermath of the current crises, will help strengthen monetary policy transmission. In addition, relying further on ER flexibility and preserving sufficient FX buffers will be critical to cope with new or 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.

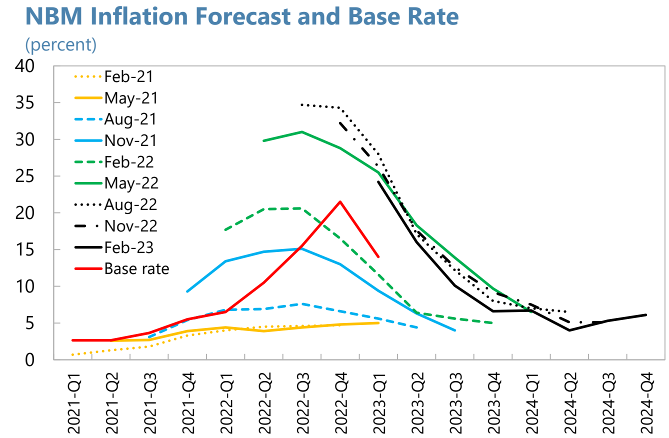
20. The NBM's independence is critical to effectively execute its functions and deliver on its mandates, particularly in times of high uncertainty. Towards this objective, parliament approved a package of legislative amendments in December to strengthen the institutional autonomy and governance of the NBM, in line with IMF safeguards recommendations.

[9] See Box 2, IMF CR 23/6.

[10] For example, due to looser fiscal policy and stronger-than-anticipated recovery of domestic demand.

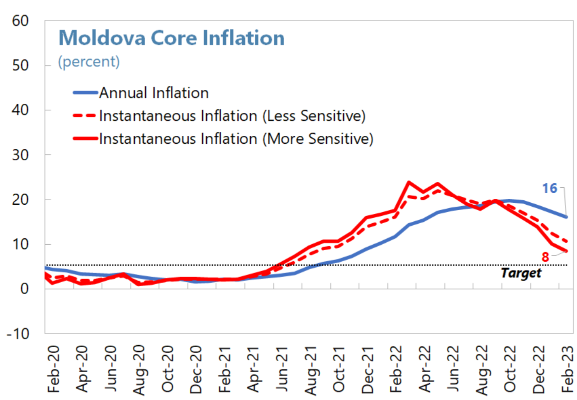
Box 1. Inflation Dynamics

Policy rate adjustments are guided by 18-month inflation forecasts, with the objective of keeping inflation within the target band. The NBM's recent policy tightening was guided by a buildup of inflationary pressures as evidenced by consecutive upward revisions of its inflation forecasts. The base rate was increased from 2.65 percent in July 2021 to 21.5 percent in August 2022. In a precautionary manner, it was maintained at that level through November 2022, although subsequent forecasts pointed to reduced inflationary pressures. As inflation peaked and showed signs of firm deceleration, the NBM entered an easing cycle, reducing the base rate by 1.5 pp in December, and by another two consecutive 3 pp in February and March.

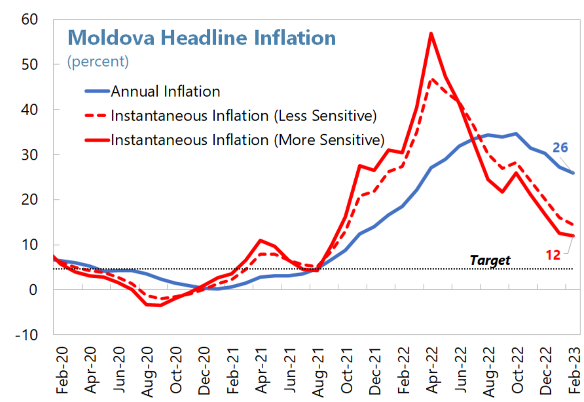


Source: National Bank of Moldova
Note: The chart shows consecutive NBM's 18-month inflation forecast from Feb 2021 to Feb 2023, and the base rate reflecting monetary policy decisions.

Considering recent inflation developments, headline inflation appears to be decelerating even faster. When inflation changes rapidly, the annual average rate is biased towards data from far in the past and conveys the true price level with a delay. While the average inflation rate can be thought of as the geometric mean of the annualized monthly inflation rates that puts equal weight on each month's data, the instantaneous inflation rate varies the weighting (with higher weights assigned to more recent months) and is able to better detect both turning points and trend (see Eeckhout, 2022). The instantaneous inflation rate shows that recent data—which incorporate the fall in energy prices and possible base effects—point to a firmly declining trend of headline inflation.



Sources: NBS and IMF Staff Estimates
Note: More sensitive instantaneous inflation places higher weight on recent months observations.



Sources: NBM and IMF Staff Estimates
Note: More sensitive instantaneous inflation places higher weight on recent months observations.

Core inflation is also trending down, although it is more persistent. Greater stickiness in core inflation (with the gap between average annual and instantaneous inflation narrower than for headline) suggests less flux in recent price changes for core items.

C. Financial Sector Policies

Background

21. Banks remain well-capitalized with sufficient liquidity, although buffers vary across banks. At end-January 2022, bank capital ratios stood at 29.5 percent, with the least capitalized bank at 22.1 percent, all above regulatory requirements. The liquidity coverage ratio at 281 percent largely exceeded the prescribed 100 percent limit, increasing by more than 100 percentage points since end-September on the back of reserve requirement relaxation and new deposits. Total deposits have recovered, currently about 5 percent above the pre-war level. In line with the staff's expectations, NPLs gradually increased to 6.6 percent of total loans due to the slowdown. New bank and non-bank loans contracted by 50 and 13 percent y/y, respectively, amid the tight monetary policy stance and macroprudential limits. Return on equity and return on assets were 23.9 percent and 4.1 percent, respectively, showing favorable profitability. Nevertheless, increased loan loss provisioning and elevated credit risk could weaken profitability. Existing resolution tools would help address troubled banks, should risks materialize. An upgrade of bank liquidation and BRRL framework is underway. Two banks lost their correspondent bank relationships due to sanctions on Russia but found replacements, including in China and Turkey. In line with FSSR 2021, comprehensive technical assistance is being provided to the NBM.

Policies

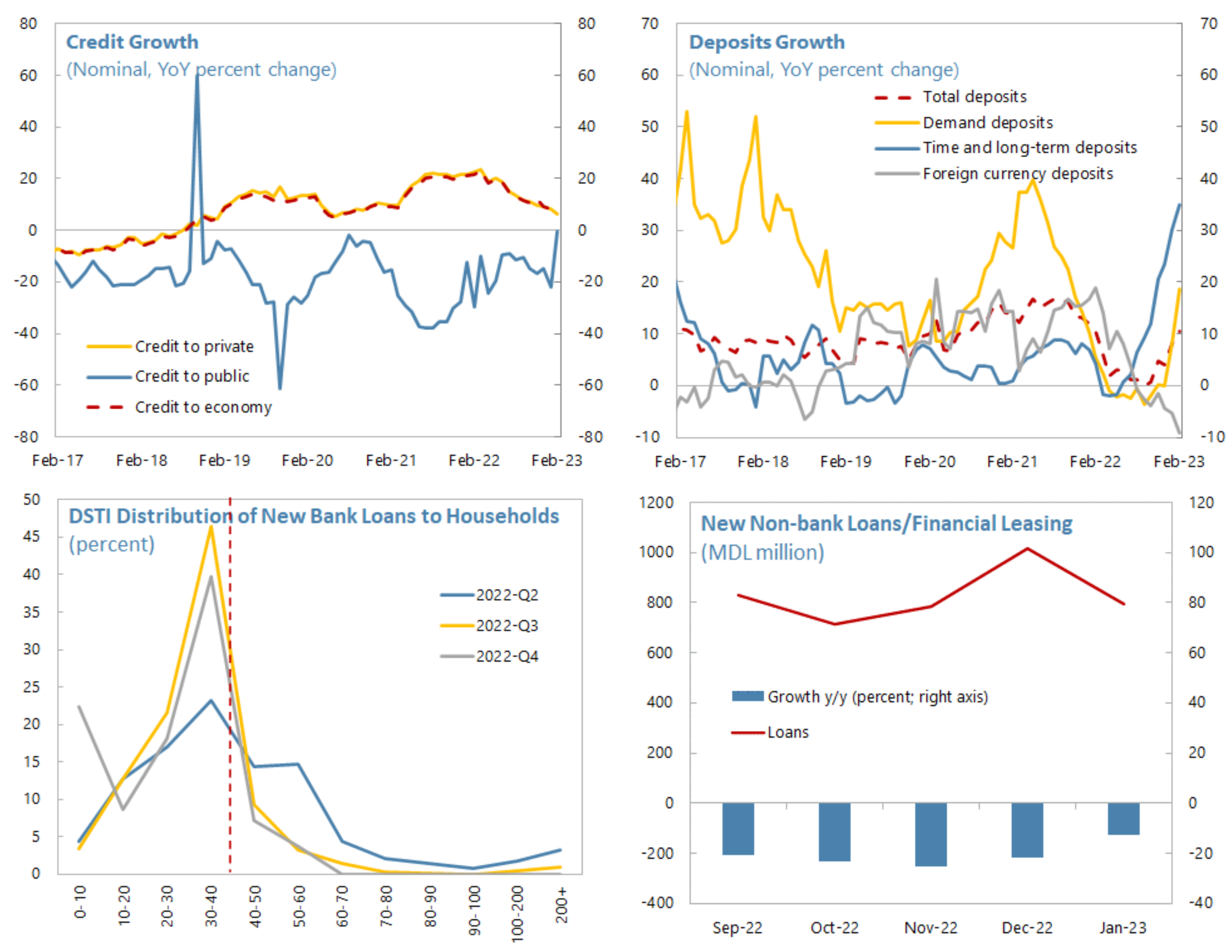
22. The authorities plan to strengthen regulatory frameworks for capital markets and consumer financial protection, while ensuring a smooth transfer of responsibilities from the Commission for Financial Market (NCFM) to the NBM by June 2023. They plan to consolidate supervision of capital markets by transferring the financial market-related competencies of the Central Securities Depository (CSD) from the NBM to the NCFM. They have also set up an intra-agency working group to establish supervision, ownership, and governance of the CSD under the new regulatory framework. The authorities are well advanced in entrusting the NCFM with the consumer financial protection mandate for all financial services.[11] The transfer of supervisory responsibilities for non-banks from NCFM to NBM is proceeding as planned.

23. Mobilizing productive green investment through the financial sector will support climate resilience. The NBM has an important role to play in greening the financial system and ensuring that climate risks do not threaten financial stability. Initiatives could include: (i) fostering green finance by integrating climate risk in supervision, including developing a green taxonomy and issuing guidance for banks and other financial institutions on the governance, management, reporting, and disclosure of climate related risks; and (ii) developing capacity to monitor climate risks in the financial sector.[12] The NBM is building capacity in these areas (MEFP ¶23), and intends to

[11]Annex II (Considerations for the Twin Peak in Moldova), IMF CR 23/6

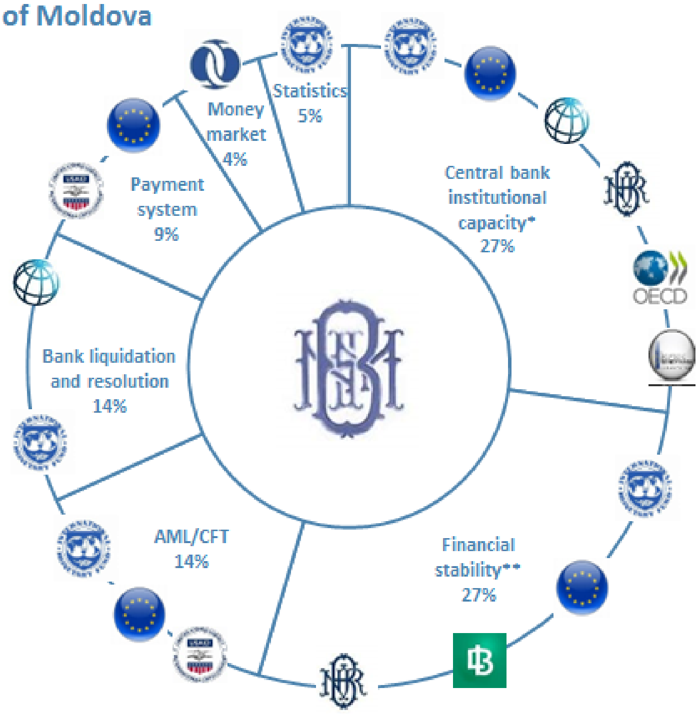
[12] See for instance green taxonomy and climate stress testing reform areas under Bangladesh's request for the RST (IMF CR 23/66). The Georgian central bank recently released a roadmap for sustainable finance, which provides a list of investment activities that aim to achieve environmental objectives and sustainable development goals.

develop the regulatory and supervisory framework for green and sustainable finance by 2025. Supervisors should also work with the insurance industry and all levels of government to address the availability and affordability of disaster risk insurance.



Sources: National Bank of Moldova and National Commission for Financial Markets.

Comprehensive Technical Assistance Program for the National Bank of Moldova



Note: Technical assistance delivered or ongoing 2022-23 in 22 areas by the IMF, World Bank, EU, Bank of Lithuania, National Bank tof Romania, Deutsche Bundesbank, USAID, EBRD, and OECD.
*Internal audit, external relations, cash processing, non-banks, financial education.
**Financial sector governance supervision, risk-based supervision, banks' shareholder approval, SupTech and RegTech.

D. Structural Policies

Background

24. **Deeply entrenched corruption has weakened the rule of law, trust in public institutions and Moldova's economy.** The judicial institutions are perceived to be among the most corrupt in the country, while the focus of corruption enforcement on low-level acts and officials has contributed to perceptions of impunity and has not resulted in effective recovery of proceeds of corruption or dissuasive sanctions against high-level corruption. Effectiveness of the criminal justice system is undermined by weaknesses in the legal and regulatory frameworks as well as institutional challenges in key anti-corruption agencies. Critical reforms to improve implementation of anti-corruption policies and tackle vested interests are key to achieve objectives of the program (Box 3).

Policies

25. The authorities are pursuing an ambitious reform agenda to combat corruption and strengthen rule of law, although at a slower pace than envisaged. They introduced and are conducting integrity "pre-vetting" of candidates to judicial and prosecutorial self-governing bodies, in line with constitutional principles and international norms. Reforms to strengthen the independence and accountability of judicial and anti-corruption bodies should continue, including enhancing systems of appointment, evaluation, and disciplining of prosecutors and judges. As **PA** for this review, the authorities have initiated important amendments of the Criminal Procedure Code, including of the framework for simplified proceedings, achieving the objectives of **end-December 2022 SB** without meeting some of its elements. They intend to focus further anti-corruption efforts and investigative jurisdiction of the Anti-corruption Prosecution Office (APO) and the National Anticorruption Centre (NAC) on high-level corruption (end-December 2022 SB converted into **PA**) and to strengthen APO's budgetary independence (**end-June 2023 SB**). Among other priorities is intensification of scrutiny of high-level officials' sources of wealth, leveraging the asset declaration regime and the illicit enrichment offence, and recovery of proceeds of corruption.

26. The SOE ownership strategy was adopted in December (MEFP ¶28). As a next step, the authorities plan to establish a working group comprising of line ministries to implement triage by grouping SOEs into categories based on procedures and indicators set out in the strategy (**end-December 2023 SB**). They 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. With the support of the World Bank (WB), the authorities submitted to Parliament regulations on the selection process for supervisory board members and auditing of SOEs in February. These regulations provide the Public Property Agency (PPA) with the authority to: (i) ensure adoption by SOEs of a corporate governance code consistent with the model approved by the government, and (ii) evaluate the performance of SOE board members. The MoF is improving the methodology and enhancing the narrative for SOE fiscal risk reporting (MEFP ¶13). With the exception of a few SOEs, financial sustainability and cost recovery for monitored SOEs at the central government level seem to have largely been preserved (Box 2).

Box 2. Fiscal Risks from SOEs

Moldova's Ministry of Finance (MoF) undertakes a comprehensive assessment of the financial positions of all SOEs operating at the central government (CG) level. In line with recommended best practices, the MoF requests regular financial performance information directly from SOEs and line ministries. In addition, the Public Property Agency (PPA) regularly shares quarterly financial statements of CG SOEs with the MoF.[1] The fiscal risk statement is published on the MoF website, upon its submission with the draft annual budget law. The statement comprehensively discloses financial indicators and discusses risks, with a view to identify corrupt practices and legacy contracts that contribute to SOEs fiscal costs.

Risks from SOEs can have a material impact on the government. In 2021, the MoF reported consolidated financial information for 137 SOEs at the CG level (106 public enterprises and 31 joint-stock companies with majority/full ownership). The gross assets of these SOEs are equivalent to around 20 percent of GDP; gross liabilities were 9 percent of GDP. Around 40 percent of companies recorded losses in 2021 (a 10-pp decrease compared to 2020).

Pockets of vulnerability were evident at the individual SOE level in 2021. These were largely a reflection of the rising inflation and energy costs in 2021H2. Financial data for the 21 largest SOEs were analyzed in the 2022 fiscal risk statement.[2] In 2021, these companies represented 70 percent of sales revenue, 90 percent of the assets, and 94 percent of liabilities of the 137 SOEs. With the exception of a few SOEs (*Mărculești International Airport*, *CET-Nord* and *Moldtelecom*), most seemed able to cover short-term liabilities. Operating profit margins had worsened for transport SOEs (particularly the roads administrator) and for some energy SOEs. The most leveraged SOEs included *Moldova Post*, *Termoelectrica* and *Energocom*.[3]

Consolidated Information of the Key Financial Indicators of SOEs

	2019		2020		2021	
	MDL bn	% of GDP	MDL bn	% of GDP	MDL bn	% of GDP
Assets	43.2	21.0	46.0	23.0	48.9	20.2
Own capital	28.3	13.7	29.6	14.8	27.1	11.2
Share capital	8.8	4.3	9.4	4.7	9.6	4.0
Liabilities	14.9	7.2	16.3	8.2	21.7	9.0
Net profit/ losses	0.4	0.2	-0.1	0.0	0.3	0.1
Payment of taxes and fees to the budget	2.2	1.0	2.1	1.1	2.1	0.9
Debts to state budget	0.1	0.0	0.1	0.1	0.1	0.0
Share of SOEs recording losses/ no profi	36.0		51.9		41.6	
Share of SOEs recording profits	64.0		48.1		58.4	

Source: The Ministry of Finance

Financial Ratios for Key SOEs

	Liquidity 1/			Profitability 2/			Leverage 3/		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
State Administration of the Roads	1.4	1.6	1.7	1.6	1.1	-4655	1.6	1.6	2.3
Moldova Railways (CFM)	2.4	1.2	1.2	-3.6	-25.6	-14.0	1.2	1.3	1.3
Mărculești International Airport	0.4	0.4	0.4	-804	-592	-87.9	1.3	1.3	1.3
MoldATSA *(air traffic)*	8.6	9.3	7.0	8.2	-94.8	5.7	1.2	1.1	1.1
Moldova Post	1.1	0.9	0.9	8.0	-9.0	-1.6	3.1	4.3	3.3
Termoelectrica*	5.3	7.5	2.5	8.2	2.4	6.4	2.7	2.7	3.5
RED-Nord*	1.0	1.0	0.9	23.2	-2.5	7.9	1.1	1.2	1.1
Moldelectrica*	3.1	2.8	2.9	5.6	8.1	11.1	1.6	1.8	1.8
CET-Nord*	0.6	0.7	0.7	-3.0	0.2	-8.9	2.2	2.7	2.5
Modtranselectro*	1.0	1.0	0.9						-6.7
Energocom*	1.2	1.3	1.2	0.6	0.7	0.6	5.5	5.3	5.6
Furnizarea Energiei Electrice Nord*	0.8	1.6	1.0	-5.5	8.3	-4.7		2.6	-33.1
Nodul Hidroenergetic Costești*		11.1	7.0		69.6	71.4		1.1	1.1
Moldtelecom	0.5	0.3	0.3	3.1	7.4	7.5	1.3	1.3	1.3
Radiocomunicații	43.8	50.5	63.0	3.5	4.6	4.8	1.0	1.0	1.0
Cricova Winery	2.0	1.4	1.1	8.0	1.9	2.9	2.0	2.0	2.0
Mileștii Mici Winery	9.0	11.2	12.5	10.5	-32.0	6.8	1.1	1.1	1.1
Barza Albă *(brandy producer)*	19.3	35.7	14.5	8.5	4.4	15.3	1.1	1.1	1.1
Franzeluța *(bakery)*	2.1	2.6	3.3	1.4	-0.6	-1.8	1.2	1.2	1.2
Chisinau Glass Factory	8.3	16.6	12.1	7.4	6.3	18.2	1.1	1.0	1.1
Metalferos	149	177	383	2.1	1.3	1.9	1.0	1.0	1.0

Source: The Ministry of Finance

Heatmap colors assigned based on ratio values for each SOE group. * = SOEs in the energy sector.

1/ Liquidity ratio (should be greater than 1).

2/ Operating profit margin (larger values generally better).

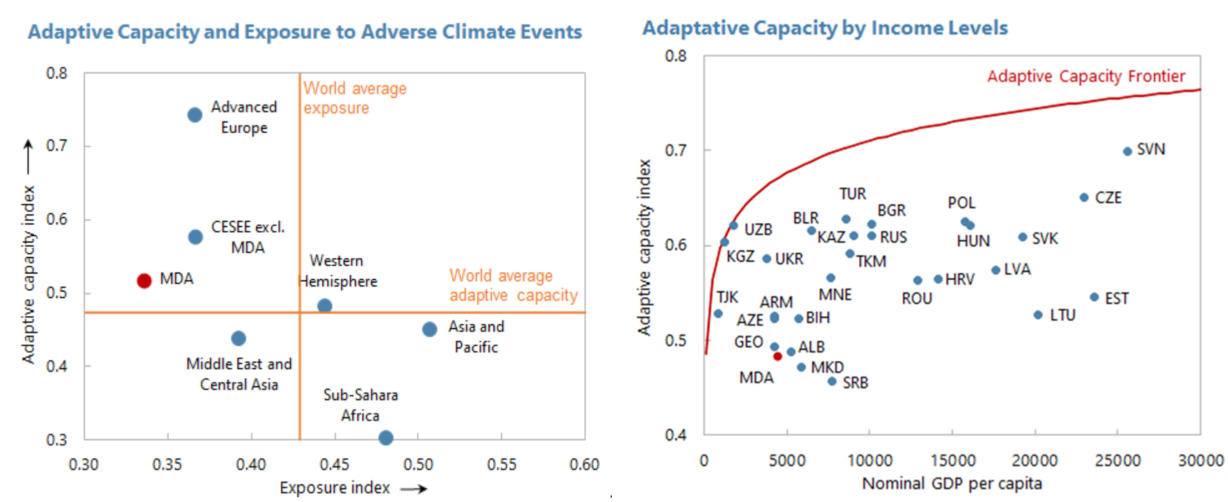
3/ Assets to equity ratio (should be less than 2).

[1] To enhance oversight capacity and fiscal risk monitoring, the PPA requested all SOEs at the CG level to regularly submit quarterly financial statements (end-March 2022 SB under the program, which was met).

[2] The statement covers explicit and implicit budgetary risks, including from SOEs, local budgets, financial sector, state guarantees, and PPPs.

[3] The individual financial statements of the respective SOEs can be viewed on the PPA website ("Entități din administrarea APP").

27. The mission held initial discussions, jointly with the WB and the IFC, on policy priorities that could be supported by a new RSF. The authorities recognize that Moldova's adaptation capacity to adverse climate events is significantly weaker than that of its advanced European peers (e.g., see Annex III). This is due to limited investments in climate-resilient infrastructure and weaknesses in climate risk and disaster management and PFM frameworks. The authorities have prioritized climate change in the government program with plans, strategies, sectoral targets, mitigation policies, and objectives for greater resilience in six sectors (agriculture, health, transportation, energy, water, forestry). In support of a possible RSF, the authorities' diagnostics will be complemented by a Country Climate and Development Report (CCDR) and a Climate Public Investment Management Assessment (C-PIMA). A pre-CCDR mission has taken place; a C-PIMA is planned for 2023H1. The IFC will help the NBM develop a sustainable finance taxonomy. The RSF will help adaptation gaps, while catalyzing official (EU, EIB, EBRD, US, France) and private (green bonds) financing. An RSF mission is planned in the fall of 2023, with the fourth ECF/EFF review.



Note: Exposure and adaptive capacity indices are measured across six dimensions (infrastructure, health, food, water, human habitat, and ecosystem). The adaptive capacity frontier is estimated to fit a production function with a single input, the logarithm of GDP per capita in US dollars.
Source: IMF staff calculations based on 2020 data from the WEO and the University of Notre Dame's Global Adaptation Index.

Box 3. IMF-Supported Programs and Anti-Corruption Criminal Law Enforcement

Criminal law enforcement is recognized by the Fund's 2018 Enhanced Governance Policy Framework as being central to an effective anti-corruption strategy. Reforms promoting good governance need robust criminal enforcement frameworks to be effective. To effectively bring perpetrators of corruption to justice, recover corrupt proceeds, and safeguard the judicial process from abuse, a country's criminal law framework must adequately lay out substantive corruption offenses and applicable penalties and establish procedures for criminal law proceedings.

When providing advice on these issues, Fund staff draws from international norms and good practices. Norms include the *UN Convention Against Corruption (UNCAC)*, which covers the main areas of anti-corruption, including criminalization, law enforcement and international cooperation and asset recovery, and the *Financial Action Task Force (FATF) standard*—the global standard for AML/CFT, which includes recommendations relating to investigation, prosecution, and sanctioning of money laundering offenses and related predicate offenses (including corruption), and asset recovery. Evaluations of compliance against these standards provide useful information.

Criminal law reforms have constituted important aspects of other Fund-supported programs: Afghanistan and Suriname (amendments to the Penal Code to ensure adequate criminalization of corruption offenses), Serbia (amendments to the Tax Procedure and Penal Codes to broaden the investigative powers of tax authorities), and Ukraine (amendments to AML/CFT Law, Criminal Code, and Criminal Procedure Code to ensure effective use of AML/CFT tools to support anti-corruption efforts from specialized anti-corruption agencies).

Fund-supported programs with Moldova have included reforms of the criminal legal framework, including amendment of the Criminal Code to ensure that the main corruption offences and all instances of money laundering are classified as serious offences and of the Law on Prosecution Service strengthening the selection process for the head of APO as well as development of an asset recovery strategy by the Prosecutor General's Office.

PROGRAM MODALITIES

28. The authorities propose to update program conditionality as follows:[13]

- Extension of the quantitative indicative targets to include March 2024 (MEFP Table 1).
- Waiver of non-observance of the continuous PC on the non-accumulation of external payment arrears. The temporary accumulation of arrears resulting from Russia terminating its moratorium on debt repayments resulted in a breach of the continuous PC on non-accumulation of arrears. The authorities have taken corrective actions (¶16).
- Expanding the TMU definition to include the terminology for an escrow account consistent with Moldova's legal framework, i.e., a "designated account to cover arrears" (TMU ¶13).

[13] In this cycle, staff will not propose new structural conditionality as six new SBs were introduced in the previous review. The program is well guided by structural conditionality for the next 12–18 months. The upcoming RST discussions will add reform measures to help guide progress towards program objectives.

- Modification of an end-June 2023 SB (SB4, MEFP Table 2). The authorities clarified that amending the Budget Classification is not needed to include the APO as a separate line item to ensure that it operates with an independent budget. They intend to assign a separate code in the registry of budgetary institutions maintained by the MoF.

- Revision of the end-September 2022 outturn for the cash deficit of the general government to include the Energocom recapitalization (MEFP, Table 1). Of the MDL 6.1 billion that was classified above-the-line (¶4, footnote 2), updated data from the authorities show that MDL 1.033 billion was disbursed in August and September. This means that the reported end-September outturn for the cash deficit of the general government should be revised up by this amount to MDL 2,950 million. The end-September QPC would still have been met with a large margin.[14]

29. The ECF/EFF continues to provide valuable financial assistance while catalyzing external support. The program remains fully financed for the next 12 months, with firm financing assurances for 2023–25 (Table 1). The authorities intend to use the disbursement after the completion of this review (SDR 70.95 million, or 41.13 percent of quota) for budget support. Relative to the staff report for the second review of the ECF/EFF:

- The WB increased its grant allocation in 2023 from $17 million to $111 million.

- Additional financing was also announced, although details are yet to be confirmed: (i) $300 million from the U.S. (through USAID) to help with Moldova's energy crisis; (ii) €145 million in additional macro-financial assistance from the European Commission; and (iii) €15 million from *Agence Française de Développement* (AFD) in 2023 bringing the total amount to €60 million, of which €40 million earmarked for the energy sector and the remainder for the forestry sector (there are indications that AFD financing in 2024 will also be increased to €60 million).

30. Capacity to repay the Fund is adequate but subject to risks. The Fund's exposure peaks at 5.9 percent of GDP in 2024, while debt service to the Fund peaks at 2.3 percent of total exports in 2024. Moldova's repayment track record is strong. Risks to capacity to repay remain rooted in the volatile political environment and the possibility of policy reversals (Annex I), as well as the challenging external environment (¶7).

31. Risks to the program are high but mitigated by strong ownership (¶2)**.** Moldova's external reserve buffer is broadly adequate, safeguarding against sudden external adjustment should risks materialize. Implementation of the two PAs and the authorities' resolve to press ahead with difficult but necessary reforms can mitigate the risks. Continued assistance from donors and development partners would support reform momentum and catalyze external financing.

[14] MEFP Table 1 reported MDL 1,917 million for end-September, IMF CR 23/6.

Table 2. Moldova: Financing Needs and Sources, 2022–24

	2022	2023	2024
Fiscal, MDL millions			
Fiscal Financing Needs	18,844	24,001	15,728
Budget Sources	6,235	5,754	10,130
Net Domestic Issuance	-433	3,000	9,819
Use of funds in the single Treasury account	5,569	2,647	3,225
Other Domestic 1/	-2,043	-6,141	-5,592
External Project Loans 2/	3,142	6,248	2,678
IMF	3,262	4,227	2,682
ECF/EFF: Program	3,262	4,227	2,682
World Bank	3,015	4,115	800
DPO: Loan	2,841	1,950	916
DPO: Grant	174	2,165	0
European Commission	2,537	6,391	1,057
DG ECFIN: MFA Loans	710	3,085	951
DG ECFIN: MFA Grants	304	1,212	106
DG NEAR: Budget Support Grants	1,522	2,094	0
Bilateral Support	3,795	3,515	1,059
AFD: Budget Support Loan	304	992	1,059
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	0	0
Government of Norway: Grant	284	0	0
UNDP	0	573	0
Balance of Payments, USD millions			
BOP financing needs	1234	1151	611
Reserves drawdown 3/	-572	-253	-203
External financing	662	898	407
IMF	172	217	268
World Bank	159	211	40
DPO: Loan	150	100	40
DPO: Grant	9	111	0
Bilateral Loans	100	146	46
France - AFD	79	46	46
Government of Poland	21	0	0
Japan - JICA	0	100	0
Bilateral Grants	98	27	0
Government of Romania	11	0	0
Government of Germany	42	0	0
Government of United States	30	0	0
Government of Norway	15	0	0
UNDP	0	27	0
European Commission	132	297	53
DG ECFIN: MFA Loans	37	143	48
DG ECFIN: MFA Grants	16	56	5
DG NEAR: Budget Support Grants	79	97	0

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).

STAFF APPRAISAL

32. Moldova remains in a precarious position due to a series of overlapping crises. The country's proximity to the war in Ukraine continues to fuel concerns about security. The social fabric remains fragile and under pressure from high food and energy prices. Despite the challenging environment, transition to the new government was smooth, and political instability risks seem less pronounced.

33. The economy contracted sharply in 2022, but subdued recovery is projected in 2023. Real GDP contracted by 5.9 percent in 2022 as demand was suppressed by the soaring cost of living, spillovers from the war in Ukraine, weaker-than-expected agricultural production, and an overall tight policy mix. Fiscal indicators remained robust in 2022, reflecting higher revenue collection, grants, and a continuation of past trends of budget under-execution. Inflation has decelerated, second-round effects have been contained, and inflation expectations anchored. International reserves continue providing adequate safeguards against external shocks, while the financial sector remains sound. In 2023, a modest economic recovery will be supported by a pickup of domestic demand and better growth prospects of trading partners, while inflation is expected to slow further.

34. Near-term priorities remain focused on mitigating the economic and social fallout of the war, ensuring energy security, and maintaining appropriate policy mix. Risks around the outlook are high, particularly with increasing security threats and an uncertain energy outlook. Developing strong contingency plans and adapting policies to the evolving risk landscape are critical, including by preserving adequate contingency buffers to safeguard energy security envisaged in the originally approved budget. Policies will remain focused on supporting vulnerable households, addressing civil service capacity constraints, and supporting the recovery. As pressures from the overlapping energy and cost-of-living crises subside, the authorities appropriately plan to reorient spending towards supporting recovery, including by boosting public investments in infrastructure, particularly on roads. The current gradual monetary policy easing is appropriate given the inflation outlook, but NBM's future policy decisions should remain data-driven and forward looking, with further reduction of the base rate conditional on firm downward trends of headline and core inflation. If downside risk materialize, reprioritization of budget expenditure and use of budget contingencies will help absorb unforeseen costs; appropriate FX interventions should mitigate ER volatility; and while current resolution tools will help address troubled banks, their ongoing upgrade together with the safety net reform remain a priority. The authorities may also request additional support from the Fund and other international partners.

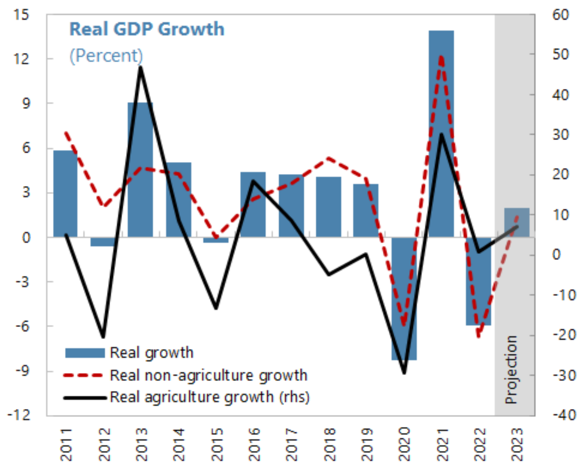
35. Program implementation remains strong despite the challenging environment and overlapping crises. The new government reaffirmed strong ownership of the program and signaled determination to advance prudent policies in support of economic resilience. The authorities met all end-December quantitative PCs. The inflation consultation clause for end-December was also met. The continuous PC on non-accumulation of external arrears was breached for a short period, for which a waiver of non-observance is requested. The end-March benchmark on institutionalizing tax expenditure reviews as part of the annual state budget has been met. Finally, the authorities will implement, albeit with delay, important reforms in anti-corruption and rule of law as prior actions for this review.

36. The authorities are formulating an ambitious reform agenda to address challenges posed by climate change. They expressed interest in financing under the RSF, with negotiations expected to take place in the context of the upcoming fourth ECF/EFF review. RSF resources could help Moldova close adaptation gaps by supporting climate-related policy goals and sustainable long-term economic development, while catalyzing official and private financing for a range of green investments.

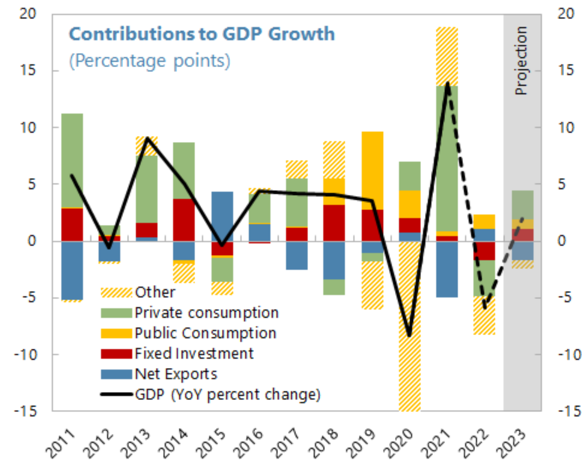
37. Staff supports the completion of the third review under the ECF/EFF program. Staff also supports the authorities' request for a waiver of non-observance of the continuous PC on the non-accumulation of arrears on external debt on the basis of the temporary nature of the breach and corrective measures put in place by the authorities. Despite significant risks to the program, the authorities' strong ownership and firm commitment to reforms and sound economic management warrant continued Fund support.

Figure 1. Moldova: Real Sector Developments

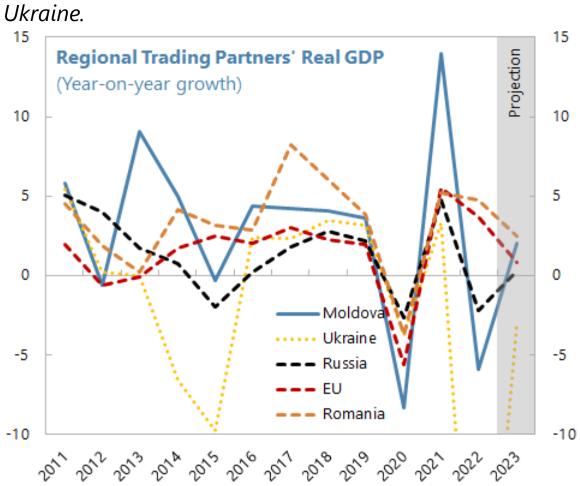
Economic activity contracted sharply in 2022



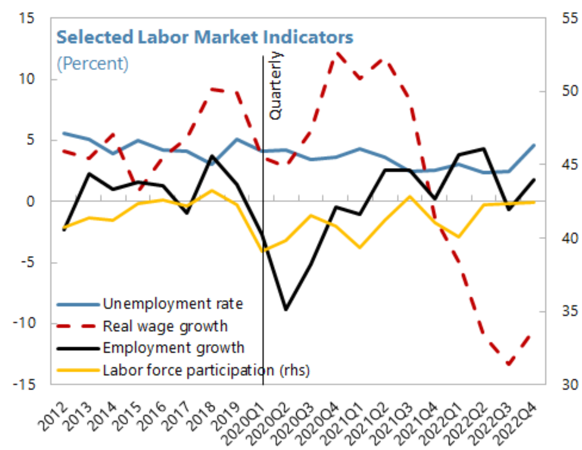
.... driven by lower private consumption and investment.



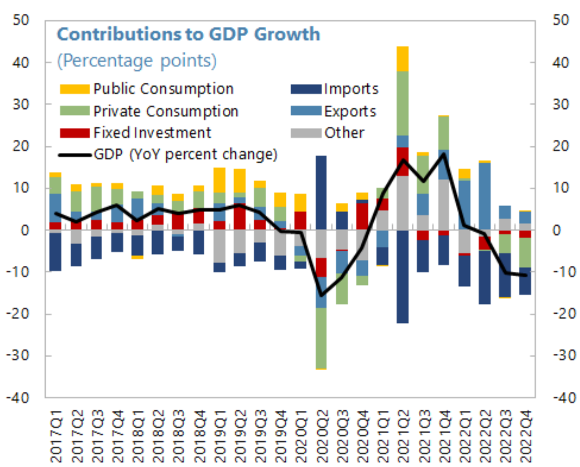
Main trade partners are adversely affected by the war in Ukraine.



Real wages fell on account of high inflation



The economy contracted by 11.7 percent in 2022Q4,yoy.



Foreign currency inflows are important to support consumption.

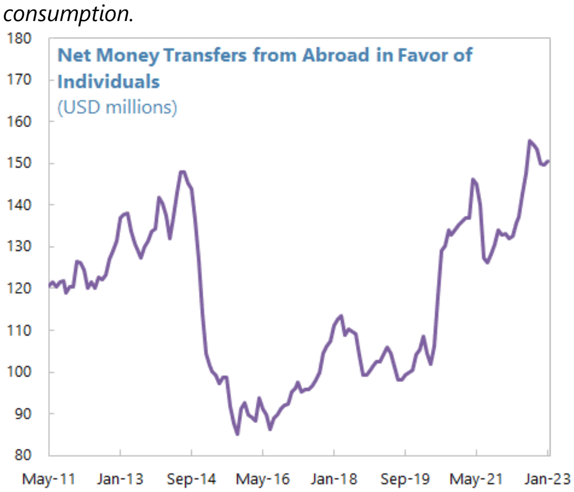
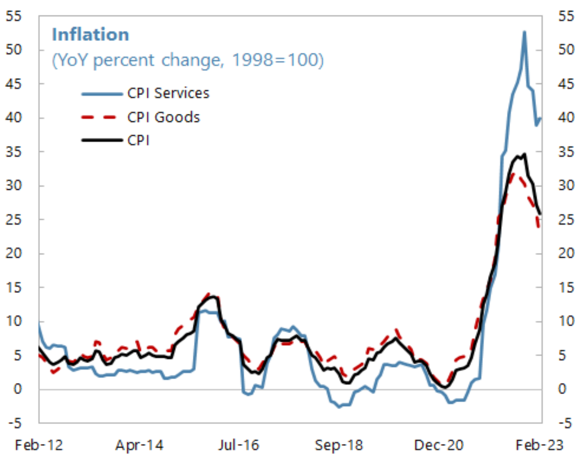
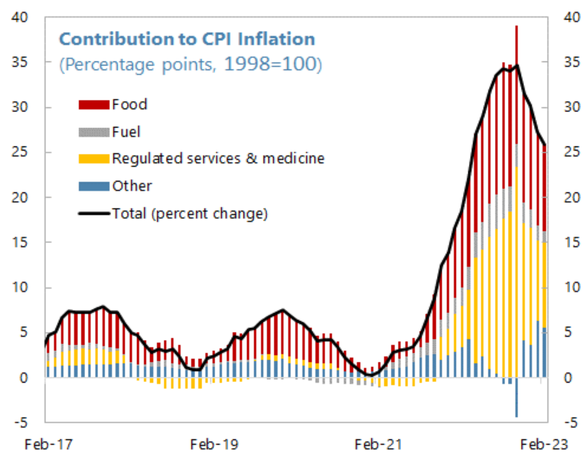


Figure 2. Moldova: Monetary Developments

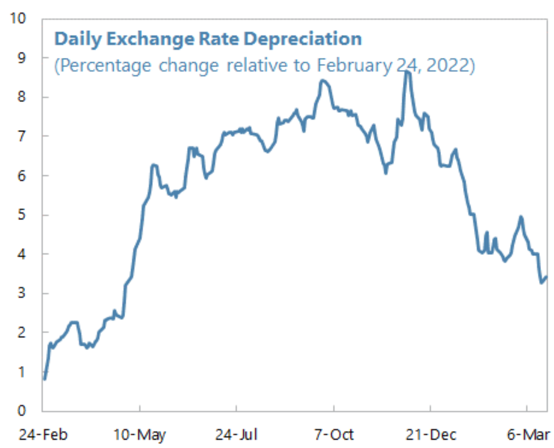
Inflation continued to decelerate in February 2023…



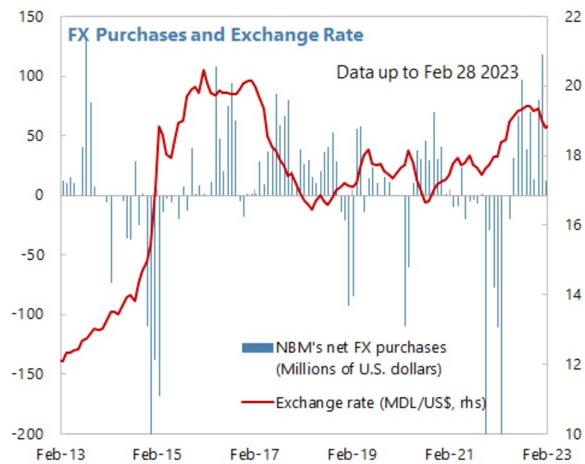
…but remains high, supported by food and energy prices.



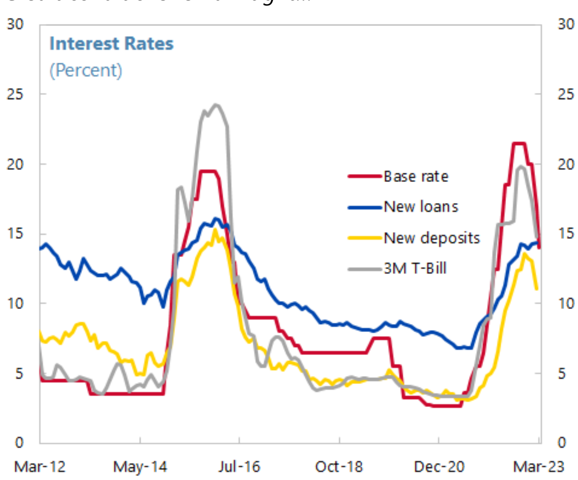
The exchange rate appreciated by about 4 percent since December 2022…



…and FX interventions have shifted to the buying side.



Credit conditions remain tight…



… reducing liquidity in the economy.

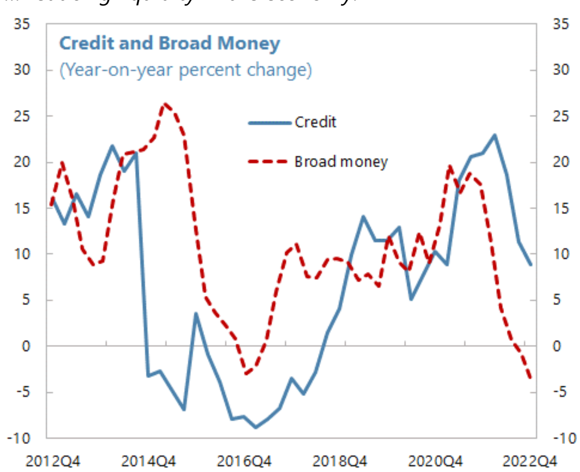


Figure 3. Moldova: Fiscal Sector Developments

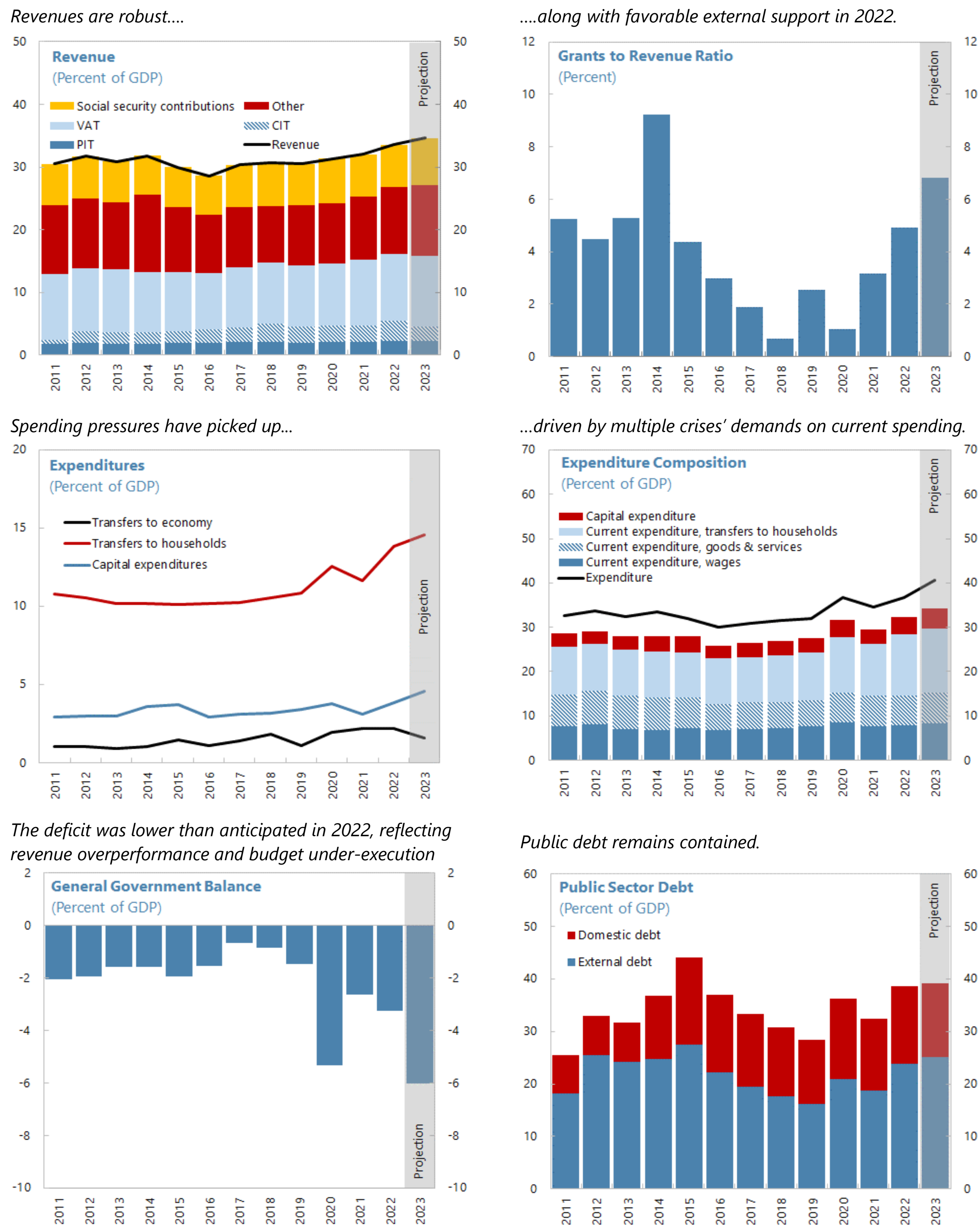
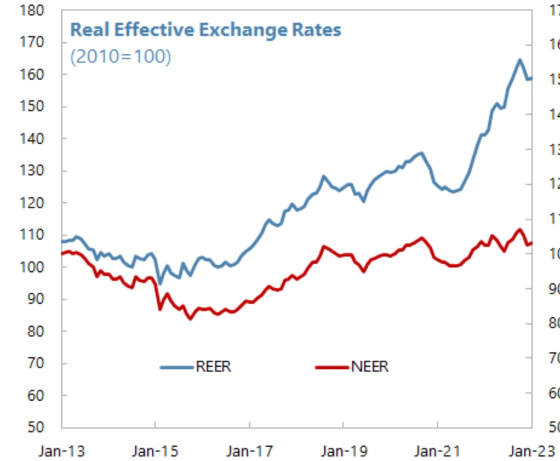
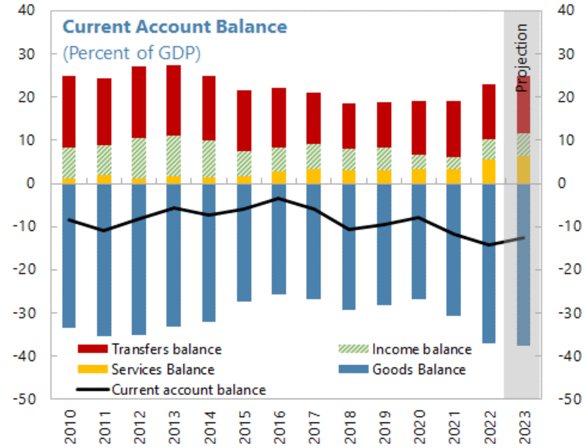


Figure 4. Moldova: External Sector Developments

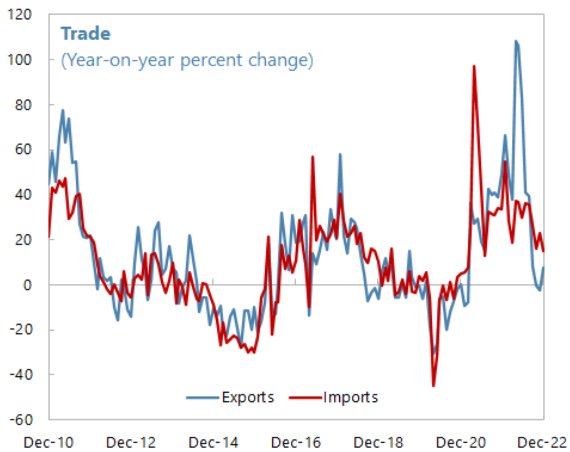
The NEER and REER have recently strengthened, with easing pressures on the leu.



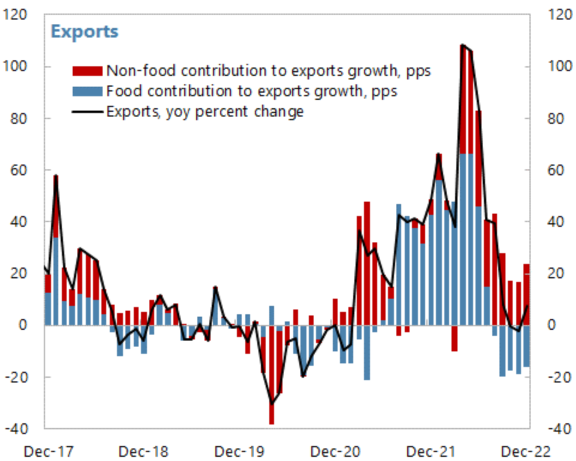
The current account deficit worsened due to higher energy and food import bill.



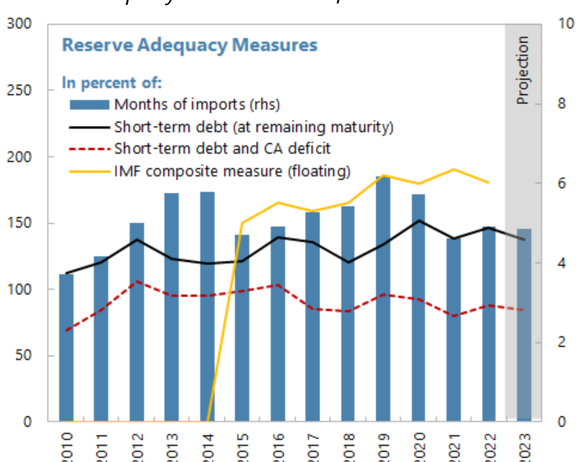
Exports performed strongly through in 2022…



….supported by both food and non-food product exports.



Reserve adequacy metrics remain favorable….



….with some recovery in net IIP.

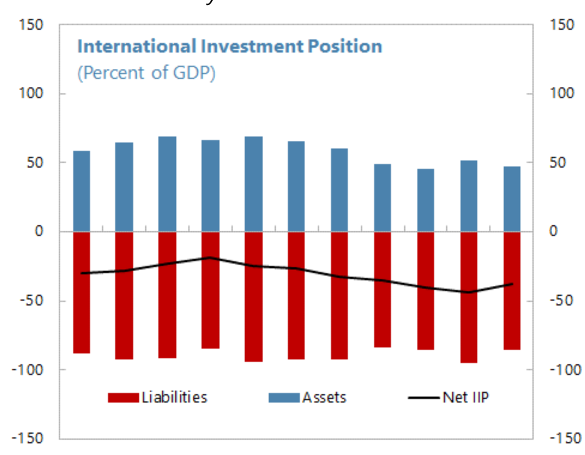


Table 3. Moldova: Selected Economic Indicators, 2018–2028 1/

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.	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	-5.9	2.0	4.3	5.0	5.1	5.1	5.1
Demand	8.5	4.1	-7.5	15.3	-5.4	2.9	4.4	4.8	5.1	4.9	5.0
Consumption	3.2	3.7	-7.9	13.2	-2.0	3.2	3.8	5.6	6.5	4.7	5.4
Private	-1.5	-0.9	2.9	15.6	-3.9	2.9	3.8	4.0	4.0	4.0	4.0
Public	15.7	47.6	16.1	2.0	7.5	5.0	4.0	13.8	19.3	8.3	13.2
Gross fixed capital formation	14.4	12.0	5.6	1.7	-6.8	4.2	6.7	6.8	6.5	6.6	6.7
Net Exports of goods and services	-14.3	-3.8	2.8	-21.1	3.7	-5.7	-4.6	-4.0	-5.3	-4.0	-4.6
Exports of goods and services	4.1	8.2	-14.9	17.5	22.5	4.4	5.6	7.1	7.5	8.1	8.8
Imports of goods and services	8.4	6.2	-9.5	19.2	10.1	5.0	5.2	5.8	6.6	6.4	7.1
Nominal GDP (billions of Moldovan lei)	189.1	206.3	199.7	241.9	272.6	308.7	339.6	376.2	417.0	462.3	512.5
Nominal GDP (billions of U.S. dollars)	11.3	11.7	11.5	13.7	14.4	15.8	17.0	17.7	18.9	19.8	21.7
Consumer price index (average)	3.6	4.8	3.8	5.1	28.6	13.9	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	8.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	3.2	5.3	5.6	6.3	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	10,825	11,850	13,050	14,375	14,375	14,375
Average monthly wage (U.S. dollars)	383	419	468	488	493	555	593	616	650	614	609
Unemployment rate (annual average, percent)	3.1	5.1	3.8	3.3	4.6	4.0	3.8	3.5	3.5	3.5	3.5
						(Percent of GDP)					
Saving-Investment Balance											
Foreign saving	10.8	9.5	7.9	11.7	14.0	12.0	11.8	10.8	10.0	9.6	8.6
National saving	15.8	15.6	14.8	17.0	12.9	14.8	15.1	15.1	14.1	14.4	14.0
Private	12.9	13.5	16.2	16.3	12.3	16.2	14.9	14.0	12.6	12.5	11.9
Public	2.9	2.2	-1.3	0.7	0.7	-1.4	0.2	1.1	1.5	1.9	2.1
Gross investment	26.6	25.1	22.7	28.7	26.9	26.9	26.9	25.8	24.1	24.0	22.6
Private	23.0	21.5	19.2	25.0	22.8	22.2	22.0	20.9	19.3	19.0	17.9
Public	3.6	3.6	3.5	3.7	4.0	4.6	4.9	4.9	4.8	5.0	4.7
Fiscal Indicators (General Government)											
Primary balance	-0.2	-0.8	-4.7	-2.0	-2.3	-5.4	-3.9	-3.1	-2.6	-2.3	-1.7
Overall balance	-0.9	-1.5	-5.3	-2.6	-3.3	-6.0	-4.6	-3.8	-3.4	-3.1	-2.6
Stock of public and publicly guaranteed debt	30.4	28.1	33.7	33.2	33.7	34.7	36.2	37.1	36.7	36.2	34.0
				(Percent change, unless otherwise indicated)							
Financial Indicators											
Broad money (M3)	7.8	8.2	19.6	11.3	5.2	…	…	…	…	…	…
Velocity (GDP/end-period M3; ratio)	2.3	2.3	1.9	2.0	2.2	…	…	…	…	…	…
Reserve money	17.7	7.6	18.8	3.4	30.3	…	…	…	…	…	…
Credit to the economy	4.1	11.5	10.3	21.0	8.9	…	…	…	…	…	…
Credit to the economy, percent of GDP	21.0	21.4	24.4	24.4	23.6	…	…	…	…	…	…
				(Millions of U.S. dollars, unless otherwise indicated)							
External Sector Indicators 2/											
Current account balance	-1212	-1112	-906	-1595	-2011	-1907	-1999	-1909	-1888	-1897	-1871
Current account balance (percent of GDP)	-10.8	-9.5	-7.9	-11.7	-14.0	-12.0	-11.8	-10.8	-10.0	-9.6	-8.6
Remittances and compensation of employees (net)	1,669	1,729	1,669	1,791	2,151	2,213	2,510	2,735	2,954	3,190	3,446
Gross official reserves 3/	2,995	3,060	3,784	3,902	4,474	4,729	4,934	4,964	4,971	4,987	5,120
Gross official reserves (months of imports)	5.4	6.2	5.7	4.6	5.0	5.0	5.0	4.7	4.1	4.1	4.5
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	2.6	…	…	…	…	…	
External debt (percent of GDP) 4/	67.6	65.1	73.5	64.2	67.7	67.0	67.6	67.9	64.8	62.7	57.2
Debt service (percent of exports of goods and services)	14.7	13.4	15.9	10.8	8.9	10.2	10.8	10.8	11.8	10.8	8.2

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 classification.

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

4/ Includes private and public and publicly guaranteed debt.

Table 4a. 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.	Proj.
Current Account Balance	-1,212	-1,112	-906	-1,595	-2,011	-1,907	-1,999	-1,909	-1,888	-1,897	-1,871
Merchandise trade balance	-3,294	-3,312	-3,094	-4,190	-5,343	-5,686	-6,048	-6,462	-6,986	-7,619	-8,290
Exports	1,975	2,118	1,944	2,562	3,331	3,431	3,551	3,693	3,848	4,033	4,267
Imports	5,269	5,430	5,039	6,753	8,674	9,117	9,599	10,155	10,834	11,652	12,556
Services balance	356	351	382	458	805	1,014	1,263	1,538	1,856	2,234	2,681
Exports of services	1,477	1,544	1,278	1,635	2,277	2,578	2,920	3,309	3,751	4,260	4,848
Imports of services	1,121	1,193	895	1,177	1,473	1,563	1,657	1,771	1,894	2,026	2,167
Income balance	536	615	390	372	704	789	945	1,053	1,144	1,244	1,337
Compensation of employees	854	878	730	763	1,020	1,048	1,205	1,326	1,432	1,546	1,670
Income on direct and portfolio investment	-316	-262	-339	-390	-314	-257	-260	-272	-287	-301	-332
Other income	-2	-2	-1	-2	-2	-2	-1	-1	-1	-1	-1
Current transfer balance	1,190	1,234	1,415	1,766	1,824	1,976	1,841	1,962	2,098	2,244	2,401
Remittances	815	851	939	1,028	1,131	1,165	1,305	1,409	1,522	1,644	1,775
Budget transfers	100	173	95	111	251	356	36	33	35	38	40
Other transfers	275	210	381	626	441	455	500	520	541	562	585
Capital and Financial Account Balance	-1,391	-1,167	-1,238	-1,664	-1,107	-1,603	-1,767	-1,925	-1,955	-1,994	-2,122
Capital account balance	-36	-55	-66	-51	-38	-46	-53	-53	-56	-59	-62
Financial account balance (inflows: "-")	-1,427	-1,222	-1,304	-1,715	-1,146	-1,649	-1,820	-1,979	-2,011	-2,052	-2,184
Foreign direct investment, net (inflows: "-")	-259	-468	-152	-239	-64	-240	-271	-293	-346	-355	-423
Portfolio investment and derivatives, net	5	5	0	-6	-4	0	-1	2	2	1	2
Other investment, net	-1,173	-759	-1,153	-1,470	-1,078	-1,410	-1,548	-1,688	-1,667	-1,698	-1,762
Loans	-111	-119	-208	-148	-136	-155	-93	108	167	145	90
General government, net	17	1	-100	-51	-102	-100	36	229	299	277	223
Private sector, net	-128	-120	-108	-97	-34	-54	-129	-121	-131	-132	-133
Other capital flows, net	-1,061	-640	-944	-1,321	-942	-1,255	-1,455	-1,795	-1,834	-1,843	-1,852
Errors and omissions	47	18	-84	39	0	0	0	0	0	0	0
Overall Balance	226	73	248	107	-904	-304	-232	16	67	96	251
Financing	-226	-73	-248	-107	904	304	232	-16	-67	-96	-251
Gross international reserves (increase: "+")	236	60	637	206	-452	253	203	30	8	16	135
Use of Fund credit, net	-55	-36	186	31	164	161	300	13	-60	-81	-116
Monetary authorities	-41	-37	-43	-34	-5	-11	251	40	-29	-40	-51
Purchases	21	18	7	0	0	0	268	60	0	0	0
Repurchases	62	55	50	34	5	11	17	20	29	40	51
General government	-14	1	229	65	170	173	49	-26	-30	-41	-66
Purchases	13	28	254	81	172	217	134	30	0	0	0
Repurchases	27	26	25	17	3	44	85	56	30	41	66
Exceptional financing	65	24	161	62	287	396	135	0	0	0	1
European Commission	0	22	83	53	37	148	48	0	0	0	0
World Bank	60	1	54	0	150	100	40	0	0	0	0
Other official bilateral donors	5	0	24	10	100	148	48	0	0	0	1
					(Percent of GDP, unless otherwise indicated)						
Memorandum Items:											
Gross official reserves (millions of U.S. dollars) 2/	2,995	3,060	3,784	3,902	4,474	4,727	4,931	4,960	4,968	4,984	5,118
Months of imports of good and services	5.4	6.2	5.7	4.6	5.0	5.0	5.0	4.7	4.0	4.1	4.5
Percent of short term debt and CA deficit	83.2	96.0	92.6	80.8	90.3	88.0	87.7	80.5	78.7	82.8	122.3
Pct of short-term debt at remaining maturity	120.4	134.0	151.9	138.4	146.7	140.1	132.8	116.0	112.4	120.2	122.3
Pct of the IMF composite measure (floating) 3/	159.3	165.8	186.2	179.5	191.0	183.7	175.3	165.8	158.8	157.8	160.0
Current account balance	-10.8	-9.5	-7.9	-11.7	-14.0	-12.0	-11.8	-10.8	-10.0	-9.6	-8.6
Goods and services trade balance	-26.1	-25.2	-23.5	-27.3	-31.5	-29.5	-28.2	-27.7	-27.2	-27.3	-32.6
Export of goods and services	30.7	31.2	27.9	30.7	38.9	38.0	38.1	39.5	40.3	42.0	42.0
Import of goods and services	56.8	56.4	51.5	58.0	70.4	67.5	66.3	67.2	67.5	69.2	74.5
Foreign direct investment balance	2.3	4.0	1.3	1.7	0.4	1.5	1.6	1.6	1.8	1.8	1.9
					(Percent change of amounts in U.S.dollars, unless otherwise indicated)						
Exports of goods	5.8	7.2	-8.2	31.8	30.0	3.0	3.5	4.0	4.2	4.8	5.8
Exports of services	17.9	4.5	-17.2	27.9	39.3	13.2	13.3	13.3	13.3	13.6	13.8
Imports of goods	19.1	3.0	-7.2	34.0	28.5	5.1	5.3	5.8	6.7	7.6	7.8
Imports of services	18.2	6.4	-24.9	31.5	25.1	6.2	6.0	6.9	6.9	7.0	7.0
Remittances and compensation	14.8	14.7	14.5	13.1	14.9	14.0	14.8	15.4	15.7	16.1	15.9
Debt service (pct of exports of goods and services)	14.7	13.4	15.9	10.8	8.9	10.2	10.7	10.8	11.8	10.8	8.2

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.

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 4b. 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.	Proj.
Current Account Balance	-10.8	-9.5	-7.9	-11.7	-14.0	-12.0	-11.8	-10.8	-10.0	-9.6	-8.6
Merchandise trade balance	-29.3	-28.2	-26.8	-30.6	-37.1	-35.9	-35.6	-36.4	-37.0	-38.6	-38.2
Exports	17.6	18.0	16.9	18.7	23.1	21.7	20.9	20.8	20.4	20.4	19.6
Imports	46.8	46.3	43.7	49.4	60.2	57.6	56.5	57.2	57.4	59.0	57.8
Services balance	3.2	3.0	3.3	3.3	5.6	6.4	7.4	8.7	9.8	11.3	12.3
Exports of services	13.1	13.2	11.1	11.9	15.8	16.3	17.2	18.6	19.9	21.6	22.3
Imports of services	10.0	10.2	7.8	8.6	10.2	9.9	9.8	10.0	10.0	10.3	10.0
Income balance	4.8	5.2	3.4	2.7	4.9	5.0	5.6	5.9	6.1	6.3	6.2
Compensation of employees	7.6	7.5	6.3	5.6	7.1	6.6	7.1	7.5	7.6	7.8	7.7
Income on direct and portfolio investment	-2.8	-2.2	-2.9	-2.9	-2.2	-1.6	-1.5	-1.5	-1.5	-1.5	-1.5
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	10.5	12.3	12.9	12.7	12.5	10.8	11.1	11.1	11.4	11.1
Remittances	7.2	7.3	8.1	7.5	7.9	7.4	7.7	7.9	8.1	8.3	8.2
Budget transfers	0.9	1.5	0.8	0.8	1.7	2.2	0.2	0.2	0.2	0.2	0.2
Other transfers	2.4	1.8	3.3	4.6	3.1	2.9	2.9	2.9	2.9	2.8	2.7
Capital and Financial Account Balance	-12.4	-9.9	-10.7	-12.2	-7.7	-10.1	-10.4	-10.8	-10.4	-10.1	-9.8
Capital account balance	-0.3	-0.5	-0.6	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Financial account balance	-12.7	-10.4	-11.3	-12.5	-8.0	-10.4	-10.7	-11.1	-10.7	-10.4	-10.1
Foreign direct investment, net (inflows: "-")	-2.3	-4.0	-1.3	-1.7	-0.4	-1.5	-1.6	-1.6	-1.8	-1.8	-1.9
Portfolio investment and derivatives, net	0.0	0.0	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	-10.7	-7.5	-8.9	-9.1	-9.5	-8.8	-8.6	-8.1
Loans	-1.0	-1.0	-1.8	-1.1	-0.9	-1.0	-0.5	0.6	0.9	0.7	0.4
General government, net	0.1	0.0	-0.9	-0.4	-0.7	-0.6	0.2	1.3	1.6	1.4	1.0
Private sector, net	-1.1	-1.0	-0.9	-0.7	-0.2	-0.3	-0.8	-0.7	-0.7	-0.7	-0.6
Other capital flows, net	-9.4	-5.5	-8.2	-9.7	-6.5	-7.9	-8.6	-10.1	-9.7	-9.3	-8.5
Errors and omissions	0.4	0.1	-0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	2.0	0.6	2.2	0.8	-6.3	-1.9	-1.4	0.1	0.4	0.5	1.2
Financing	-2.0	-0.6	-2.2	-0.8	6.3	1.9	1.4	-0.1	-0.4	-0.5	-1.2
Gross international reserves (increase: "+")	2.1	0.5	5.5	1.5	-3.1	1.6	1.2	0.2	0.0	0.1	0.6
Use of Fund credit, net	-0.5	-0.3	1.6	0.2	1.1	1.0	1.8	0.1	-0.3	-0.4	-0.5
Monetary authorities	-0.4	-0.3	-0.4	-0.2	0.0	-0.1	1.5	0.2	-0.2	-0.2	-0.2
Purchases	0.2	0.2	0.1	0.0	0.0	0.0	1.6	0.3	0.0	0.0	0.0
Repurchases	0.5	0.5	0.4	0.2	0.0	0.1	0.1	0.1	0.2	0.2	0.2
General government	-0.1	0.0	2.0	0.5	1.2	1.1	0.3	-0.1	-0.2	-0.2	-0.3
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	0.1	0.0	0.3	0.5	0.3	0.2	0.2	0.3
Exceptional financing	0.6	0.2	1.4	0.5	2.0	2.5	0.8	0.0	0.0	0.0	0.0
o/w											
European Commission	0.0	0.2	0.7	0.4	0.3	0.9	0.3	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	0.1	0.7	0.9	0.3	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	4,727	4,931	4,960	4,968	4,984	5,118
Months of imports of good and services	5.4	6.2	5.7	4.6	5.0	5.0	5.0	4.7	4.0	4.1	4.5
Percent of short term debt and CA deficit	83.2	96.0	92.6	80.8	90.3	88.0	87.7	80.5	78.7	82.8	122.3
Pct of short-term debt at remaining maturity	120.4	134.0	151.9	138.4	146.7	140.1	132.8	116.0	112.4	120.2	122.3
Pct of the IMF composite measure (floating) 3/	159.3	165.8	186.2	179.5	191.0	183.7	175.3	165.8	158.8	157.8	160.0
Current account balance	-10.8	-9.5	-7.9	-11.7	-14.0	-12.0	-11.8	-10.8	-10.0	-9.6	-8.6
Goods and services trade balance	-26.1	-25.2	-23.5	-27.3	-31.5	-29.5	-28.2	-27.7	-27.2	-27.3	-32.6
Export of goods and services	30.7	31.2	27.9	30.7	38.9	38.0	38.1	39.5	40.3	42.0	42.0
Import of goods and services	56.8	56.4	51.5	58.0	70.4	67.5	66.3	67.2	67.5	69.2	74.5
Foreign direct investment balance	2.3	4.0	1.3	1.7	0.4	1.5	1.6	1.6	1.8	1.8	1.9
				(Percent change of amounts in U.S.dollars, unless otherwise indicated)							
Exports of goods	5.8	7.2	-8.2	31.8	30.0	3.0	3.5	4.0	4.2	4.8	5.8
Exports of services	17.9	4.5	-17.2	27.9	39.3	13.2	13.3	13.3	13.3	13.6	13.8
Imports of goods	19.1	3.0	-7.2	34.0	28.5	5.1	5.3	5.8	6.7	7.6	7.8
Imports of services	18.2	6.4	-24.9	31.5	25.1	6.2	6.0	6.9	6.9	7.0	7.0
Remittances and compensation	14.8	14.7	14.5	13.1	14.9	14.0	14.8	15.4	15.7	16.1	15.9
Remittances	11.3	4.5	10.3	9.5	10.0	3.0	12.0	8.0	8.0	8.0	8.0
Compensation of employees	12.1	2.8	-16.8	4.5	33.6	2.8	15.0	10.0	8.0	8.0	8.0
Debt service (pct of exports of goods and services)	14.7	13.4	15.9	10.8	8.9	10.2	10.7	10.8	11.8	10.8	8.2

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.

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 5a. 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.	Proj.
Revenues and Grants	57,996	62,949	62,655	77,378	91,481	106,886	111,518	124,898	142,422	157,727	175,233
Revenues	57,609	61,347	62,006	74,931	86,966	99,580	110,064	123,133	140,467	155,668	173,057
Tax revenues	54,816	58,458	58,987	71,233	82,447	95,606	105,747	118,407	135,288	149,989	166,808
Personal income	3,982	3,970	4,166	5,134	5,997	6,859	7,615	8,435	9,350	10,366	11,529
Corporate income	5,357	5,365	5,123	6,009	8,729	7,227	7,951	8,808	12,682	14,060	15,637
Property tax	564	580	582	756	755	814	892	988	1,095	1,214	1,350
VAT	18,616	20,183	19,775	25,509	29,057	34,523	37,450	41,380	46,701	51,776	57,582
Excises	5,683	6,222	6,469	7,608	8,013	10,363	11,743	14,379	16,226	17,990	20,007
Foreign trade	1,666	1,798	1,739	2,253	2,732	2,445	3,456	3,828	4,243	4,704	5,232
Other	1,793	1,935	1,898	2,125	2,242	2,208	2,429	2,691	2,983	3,307	3,678
Social Fund contributions	13,038	13,636	14,296	16,224	18,573	23,304	25,639	28,402	31,482	34,903	38,817
Health Fund contributions	4,118	4,768	4,940	5,615	6,350	7,863	8,572	9,496	10,526	11,670	12,978
Non-tax revenues	2,793	2,889	3,018	3,698	4,519	3,974	4,318	4,726	5,179	5,678	6,249
NBM profit transfers	0	0	218	407	147	0	0	0	0	0	0
Grants	387	1,603	650	2,447	4,515	7,306	1,453	1,765	1,955	2,059	2,176
Budget support	0	1,235	316	2,014	3,882	6,043	818	1,059	1,173	1,236	1,305
Project	387	368	334	434	633	1,263	635	706	782	824	870
Expenditure and Net Lending	59,609	65,972	73,275	83,714	100,374	125,416	127,139	139,193	156,599	172,058	188,726
Current expenditure	53,597	58,975	65,687	76,151	89,921	111,411	110,882	120,243	134,552	146,460	160,987
Wages	13,733	15,649	17,214	18,776	21,400	25,795	28,525	31,599	35,026	38,832	43,052
Goods and services	11,209	12,080	13,276	16,683	18,601	20,989	23,207	26,084	28,758	31,190	33,581
Interest payments	1,526	1,641	1,707	1,941	2,736	5,456	3,768	4,176	4,633	5,288	5,814
Domestic	1,129	1,213	1,333	1,550	2,163	4,465	2,956	3,314	3,672	4,366	4,917
Foreign	397	428	374	391	574	991	813	861	961	921	897
Transfers	23,411	24,616	28,848	33,467	43,777	49,691	49,299	52,778	58,200	65,331	72,430
Transfers to economy 1/	3,462	2,316	3,840	5,280	6,033	4,851	5,336	5,912	6,553	7,199	7,981
Transfers to households	19,949	22,301	25,008	28,187	37,744	44,840	43,962	46,867	51,647	58,132	64,449
Other current expenditure	3,718	4,989	4,642	5,285	3,406	9,481	6,082	5,606	7,936	5,819	6,110
Capital expenditure	6,012	6,997	7,588	7,563	10,454	14,005	16,257	18,949	22,047	25,598	27,739
One-off revenue and expenditure items 2/	0	0	0	0	-6083	0	0	0	0	0	0
Overall Balance (incl. one-off items)	-1,613	-3,023	-10,620	-6,335	-14,976	-18,530	-15,621	-14,295	-14,177	-14,331	-13,493
Overall balance (excl. one-off items)	-1,613	-3,023	-10,620	-6,335	-8,893	-18,530	-15,621	-14,295	-14,177	-14,331	-13,493
Primary balance (excl. one-off items)	-293	-1,595	-9,469	-4,843	-6,300	-16,747	-13,180	-11,526	-11,044	-10,488	-8,887
Financing (excl. one-off items)	380	2,125	3,863	-286	1,369	6,125	10,129	13,663	14,177	14,331	13,493
Budget financing	1,270	2,902	2,248	-4,688	-5,231	3,694	12,614	14,842	14,912	15,744	15,898
Central government	1,933	2,984	1,831	-4,413	-4,484	3,640	12,614	14,842	14,912	15,744	15,898
Net domestic	1,094	1,701	1,854	-4,688	-4,484	2,140	12,314	14,542	14,612	15,444	15,598
Net foreign (excl. project loans)	140	85	151	138	0	750	150	150	150	150	150
Privatization	140	85	151	138	0	750	150	150	150	150	150
Others	559	1,112	-325	0	0	0	0	0	0	0	0
Local governments	-136	211	0	-227	-20	54	0	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	5,961	2,279	3,012	3,339	3,323	3,305
Of which: Onlending (through commercial banks)	-105	-113	-649	-651	-31	-287	-121	-134	-148	-164	-182
Financing Gap	1,233	898	6,757	6,621	7,523	12,404	5,492	632	0	0	0
World Bank	1,012	24	930	0	2,841	1,950	800	0	0	0	0
IMF	221	483	4,396	1,439	3,262	4,227	2,682	632	0	0	0
Others 3/	0	391	1,431	5,181	1,420	6,227	2,010	0	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	67,387	80,324	91,787	107,253	123,019	139,496	152,842	167,302	174,299

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

Table 5b. 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.	Proj.
Revenues and Grants	30.7	30.5	31.4	32.0	33.6	34.6	32.8	33.2	34.2	34.1	34.2
Revenues	30.5	29.7	31.0	31.0	31.9	32.3	32.4	32.7	33.7	33.7	33.8
Tax revenues	29.0	28.3	29.5	29.5	30.2	31.0	31.1	31.5	32.4	32.4	32.5
Personal income	2.1	1.9	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Corporate income	2.8	2.6	2.6	2.5	3.2	2.3	2.3	2.3	3.0	3.0	3.1
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
VAT	9.8	9.8	9.9	10.5	10.7	11.2	11.0	11.0	11.2	11.2	11.2
Excises	3.0	3.0	3.2	3.1	2.9	3.4	3.5	3.8	3.9	3.9	3.9
Foreign trade	0.9	0.9	0.9	0.9	1.0	0.8	1.0	1.0	1.0	1.0	1.0
Other	0.9	0.9	1.0	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Social Fund contributions	6.9	6.6	7.2	6.7	6.8	7.6	7.6	7.6	7.6	7.6	7.6
Health Fund contributions	2.2	2.3	2.5	2.3	2.3	2.5	2.5	2.5	2.5	2.5	2.5
Non-tax revenues	1.5	1.4	1.5	1.5	1.7	1.3	1.3	1.3	1.2	1.2	1.2
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	1.7	2.4	0.4	0.5	0.5	0.4	0.4
Budget support	0.0	0.6	0.2	0.8	1.4	2.0	0.2	0.3	0.3	0.3	0.3
Project	0.2	0.2	0.2	0.2	0.2	0.4	0.2	0.2	0.2	0.2	0.2
Expenditure and Net Lending	31.5	32.0	36.7	34.6	36.8	40.6	37.4	37.0	37.6	37.2	36.8
Current expenditure	28.3	28.6	32.9	31.5	33.0	36.1	32.7	32.0	32.3	31.7	31.4
Wages	7.3	7.6	8.6	7.8	7.8	8.4	8.4	8.4	8.4	8.4	8.4
Goods and services	5.9	5.9	6.6	6.9	6.8	6.8	6.8	6.9	6.9	6.7	6.6
Interest payments	0.8	0.8	0.9	0.8	1.0	1.8	1.1	1.1	1.1	1.1	1.1
Domestic	0.6	0.6	0.7	0.6	0.8	1.4	0.9	0.9	0.9	0.9	1.0
Foreign	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Transfers	12.4	11.9	14.4	13.8	16.1	16.1	14.5	14.0	14.0	14.1	14.1
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	11.7	13.8	14.5	12.9	12.5	12.4	12.6	12.6
Other current expenditure	2.0	2.4	2.3	2.2	1.2	3.1	1.8	1.5	1.9	1.3	1.2
Capital expenditure	3.2	3.4	3.8	3.1	3.8	4.5	4.8	5.0	5.3	5.5	5.4
One-off revenue and expenditure items 2/	0.0	0.0	0.0	0.0	-2.2	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	-5.5	-6.0	-4.6	-3.8	-3.4	-3.1	-2.6
Overall balance (excl. one-off items)	-0.9	-1.5	-5.3	-2.6	-3.3	-6.0	-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	-5.4	-3.9	-3.1	-2.6	-2.3	-1.7
Financing (excl. one-off items)	0.2	1.0	1.9	-0.1	0.5	2.0	3.0	3.6	3.4	3.1	2.6
Budget financing	0.7	1.4	1.1	-1.9	-1.9	1.2	3.7	3.9	3.6	3.4	3.1
Central government	1.0	1.4	0.9	-1.8	-1.6	1.2	3.7	3.9	3.6	3.4	3.1
Net domestic	0.6	0.8	0.9	-1.9	-1.6	0.7	3.6	3.9	3.5	3.3	3.0
Net foreign (excl. project loans)	0.1	0.0	0.1	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Privatization	0.1	0.0	0.1	0.1	0.0	0.2	0.0	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	1.9	0.7	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	2.8	4.0	1.6	0.2	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 3/	0.0	0.2	0.7	2.1	0.5	2.0	0.6	0.0	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	33.7	33.2	33.7	34.7	36.2	37.1	36.7	36.2	34.0

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

Table 6. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2017–2022

(Millions of Moldovan lei, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022
						Est.
National Bank of Moldova						
Net foreign assets 1/	42,153	45,700	47,526	62,701	67,592	84,470
NFA (convertible)	43,045	46,855	48,513	62,700	67,598	84,483
Gross reserves	47,936	51,345	52,654	65,132	69,240	85,716
Reserve liabilities	4,891	4,490	4,141	2,433	1,642	1,233
Net domestic assets	-5,156	-2,143	-675	-7,062	-10,044	-9,491
Net claims on general government	7,964	7,956	9,347	4,758	192	5,503
Credit to banks	-9,217	-6,299	-5,403	-6,383	-3,704	-6,617
Other items (net)	-3,903	-3,800	-4,619	-5,436	-6,533	-8,377
Reserve money	36,997	43,557	46,851	55,639	57,548	74,980
Currency in circulation	19,053	21,077	22,953	29,819	31,699	34,406
Banks' reserves	17,240	22,315	23,860	25,808	25,811	40,125
Required reserves	16,266	18,656	20,518	23,010	23,247	37,726
Other reserves	974	3,659	3,342	2,798	2,564	2,399
Monetary Survey						
Net foreign assets	67,877	71,780	74,503	89,983	97,303	102,741
NFA (convertible)	61,871	65,793	68,481	82,939	90,658	96,966
Of which: commercial banks	18,826	18,938	19,968	20,240	23,061	12,482
Foreign assets of commercial banks	23,237	22,641	23,342	23,788	27,094	19,536
Foreign liabilities of commercial banks	-4,411	-3,703	-3,374	-3,548	-4,034	-7,054
NFA (non-convertible)	6,006	5,987	6,022	7,044	6,645	5,776
Net domestic assets	9,233	11,378	15,448	17,641	22,457	23,277
Net claims on general government	11,455	12,353	13,438	14,142	11,264	13,898
Credit to economy	38,101	39,656	44,207	48,744	58,996	64,272
Moldovan lei	21,657	22,779	27,302	31,139	40,713	41,688
Foreign exchange	16,445	16,878	16,905	17,605	18,283	22,583
in U.S. dollars	962	985	982	1,023	1,030	1,179
Other items (net)	-40,323	-40,631	-42,198	-45,245	-47,803	-54,893
Broad money (M3)	77,110	83,159	89,951	107,625	119,760	126,018
Broad money (M2: excluding FCD)	53,043	58,334	63,137	75,891	83,080	90,971
Currency in circulation	19,053	21,077	22,953	29,819	31,699	34,406
Total deposits	58,003	62,081	66,997	77,806	88,062	91,612
Domestic currency deposits	33,937	37,257	40,184	46,072	51,382	56,565
Foreign currency deposits (FCD)	24,067	24,824	26,814	31,734	36,680	35,047
in U.S. dollars	1,407	1,448	1,558	1,843	2,067	1,829
Memorandum Items:						
Reserve money growth (percent change; annual)	11.2	17.7	7.6	18.8	3.4	30.3
Broad money growth (percent change; annual)	9.4	7.8	8.2	19.6	11.3	5.2
Credit to economy (percent change, annual)	-3.4	4.1	11.5	10.3	21.0	8.9
in lei	0.0	5.2	19.9	14.1	30.7	2.4
in foreign exchange ($ equivalent)	8.0	2.4	-0.2	4.1	0.7	7.2
Gross international reserves (millions of U.S. dollars)	2,803	2,995	3,060	3,784	3,902	4,194
Percent of domestic-currency broad money	90	88	83	86	83	94
Broad money multiplier	2.1	1.9	1.9	1.9	2.1	1.7

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 7. Moldova: Financial Soundness Indicators, 2015–2022

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

	2015	2016	2017	2018	2019	2020	2021				2022		
	Dec	Dec	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Size													
Number of banks	11	11	11	11	11	11	11	11	11	11	11	11.0	11.0
Total bank assets (billions of lei)	69.1	72.9	79.5	83.2	90.7	103.8	104.5	109.7	113.8	118.5	118.3	120.4	125.0
Total bank loans (percent of GDP)		25.8	22.3	18.7	19.2	22.1	19.3	20.6	22.1	23.3	24.0	24.9	24.9
Total bank assets (percent of GDP)	56.7	54.2	52.9	43.8	43.1	50.3	43.2	45.3	47.0	49.0	48.9	49.8	51.7
Capital Adequacy													
Total regulatory capital (billions of lei)		9.8	10.5	10.8	11.4	13.6	13.5	14.4	14.5	15.2	15.3	17.7	17.8
Capital adequacy ratio	26.2	30.1	31.0	26.5	24.8	27.3	26.6	26.8	26.1	25.9	25.7	29.3	29.8
Liquidity													
Liquid assets (billions of lei)	28.7	35.9	44.1	45.4	45.9	52.4	52.7	54.8	55.3	57.6			
Total deposits (billions of lei)	50.2	54.8	59.9	63.5	68.4	79.6	79.1	82.9	86.5	90.1	83.9	85.8	88.0
Liquidity ratio (liquid assets in percent of total	57.2	65.5	73.7	71.6	67.1	65.8	66.6	66.0	64.0	63.9			
Liquid assets in total assets	41.5	49.2	55.5	54.6	50.6	50.6	50.4	49.9	48.6	48.6			
Asset Quality													
Gross loans (billions of lei)	38.2	34.8	33.5	35.5	40.4	45.6	46.6	49.9	53.4	56.4	58.1	60.2	60.2
Nonperforming loans (billions of lei)	3.8	5.7	6.2	4.4	3.4	3.4	3.4	3.7	3.6	3.5	4.1	4.1	3.9
Substandard		2.1	1.9	1.5	1.4	1.2	1.2	1.6	1.6	1.5	2.2	2.0	1.9
Doubtful		1.0	1.4	1.0	0.5	0.7	0.7	0.8	0.6	0.5	0.6	0.7	0.7
Loss		2.6	2.8	2.0	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.4	1.3
Loan loss provisions (billions of lei)		4.7	5.0	3.8	3.2	3.4	3.4	3.5	3.6	3.6	3.8	3.9	3.8
Nonperforming loans as a share of total loans	9.9	16.4	18.4	12.5	8.5	7.4	7.2	7.5	6.8	6.1	7.1	6.7	6.5
Substandard		6.0	5.7	4.2	3.5	2.7	2.6	3.2	3.0	2.7	3.7	2.0	1.9
Doubtful		2.9	4.2	2.8	1.1	1.5	1.5	1.5	1.1	0.9	1.1	0.7	0.7
Loss		7.5	8.4	5.5	3.8	3.2	3.1	2.7	2.7	2.5	2.3	1.4	1.3
Provisions to non-performing loans	85.5	81.8	80.6	86.6	93.7	101.0	101.4	94.9	99.1	104.2	91.8	96.4	96.6
Loan-loss provisioning/gross loans		13.4	14.8	10.9	8.0	7.5	7.3	7.1	6.8	6.4	6.5	6.5	6.3
Profitability													
Return on equity	12.8	12.0	11.1	11.6	14.6	8.7	9.3	9.8	12.0	12.4	16.0	15.9	18.1
Return on assets	2.1	2.0	1.8	1.9	2.5	1.5	1.6	1.6	2.0	2.0	2.7	2.7	3.1
Foreign Currency Assets and Liabilities													
Total liabilities (billions of lei)		60.2	65.9	68.9	74.3	85.9	86.3	90.9	94.9	99.1	97.9	99.2	102.6
Foreign currency liabilities (billions of lei)		28.2	29.1	29.0	31.2	36.9	36.7	38.3	40.7	42.5	42.3	42.6	42.7
Foreign currency denominated liabilities in total	52.8	46.8	44.1	42.1	42.1	42.9	42.5	42.1	42.8	42.9	43.2	42.9	41.6
Foreign currency denominated assets (billions lei)		28.4	29.3	28.9	31.2	36.9	36.5	38.2	40.8	42.4	42.2	42.7	43.0
Foreign currency denominated assets in total assests	42.5	38.9	36.8	34.7	34.4	35.5	34.9	34.8	35.8	35.8	35.7	35.5	34.4
Foreign currency deposits in total deposits	52.5	46.5	42.8	41.1	41.0	41.8	41.4	41.3	42.4	42.6	37.3	43.5	42.3
Foreign currency denominated loans in total loans	42.1	44.3	41.7	38.5	33.3	30.5	29.4	28.2	27.2	26.5	25.5	25.9	28.1

Source: National Bank of Moldova.

Table 8. 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	1545	1511	1296	1943	2316	2499	2532	2389	2330
of which: fiscal financing requirements	154	139	73	51	387	375	397	631	271	29	0
Identified Financing Sources	847	1132	1683	1431	1497	1887	1335	1680	2185	2150	2400
Change in Gross Reserves (increase = +)	531	531	236	60	637	206	-320	-20	54	-182	70
Financing Gap	212	193	98	141	437	262	662	799	401	58	0
Official Financing	212	193	98	141	437	262	662	799	401	58	0
Identified program financing	177	150	65	94	182	181	490	587	138	0	0
European Commission	47	36	0	93	104	171	132	297	51	0	0
World Bank	62	5	60	1	54	0	159	117	40	0	0
Other bilateral donors	68	108	5	0	24	10	198	173	46	0	0
Fund Program	35	44	33	46	255	81	172	212	263	58	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 9. Moldova: Decomposition of Public Debt and Debt Service by Creditor, 2022–24 1/

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

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
		(Percent total debt)	*(Percent GDP)*				*(Percent GDP)*		
Total	4611.3	100.0	33.7	1925.4	1704.6	2060.7	14.1	11.7	13.4
External	2650.9	57.5	19.4	226.0	205.3	342.3	1.7	1.4	2.2
Multilateral creditors[2,3]	2532.1	54.9	18.5	154.4	170.9	332.1	1.1	1.2	2.2
IMF	832.0	18.0	6.1						
World Bank	813.5	17.6	5.9						
ADB/AfDB/IADB	0.0	0.0	0.0						
Other Multilaterals	886.6	19.2	6.5						
o/w: list largest two creditors	580.7	12.6	4.2						
EIB	422.2	9.2	3.1						
EBRD	158.5	3.4	1.2						
list of additional large creditors	0.0	0.0	0.0						
Bilateral Creditors[2]	118.8	2.6	0.9	60.5	34.4	10.2	0.4	0.2	0.1
Paris Club	111.8	2.4	0.8	23.7	28.1	10.0	0.2	0.2	0.1
o/w: list largest two creditors	68.8	1.5	0.5						
JICA	49.6	1.1	0.4						
Government of Russia	19.2	0.4	0.1						
list of additional large creditors	0.0	0.0	0.0						
Non-Paris Club	7.0	0.2	0.1	36.8	6.3	0.2	0.3	0.0	0.0
o/w: list largest two creditors	6.5	0.1	0.0						
Government of Romania	5.7	0.1	0.0						
Novo Gaming M Technologies GMBH	0.9	0.0	0.0						
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	0.0	0.0
Commercial creditors	0.0	0.0	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	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	1960.4	42.5	14.3	1699.3	1499.4	1718.4	12.4	10.3	11.2
Held by residents, total	1960.3	42.5	14.3	1699.3	1499.4	1718.4	12.4	10.3	11.2
Held by non-residents, total	0.1	0.0	0.0						
T-Bills	1021.2	22.1	7.5	1410.8	1373.1	1488.6	10.3	9.4	9.7
Bonds	854.7	18.5	6.2	212.8	95.1	204.3	1.6	0.7	1.3
Loans*	84.5	1.8	0.6	75.7	31.1	25.4	0.6	0.2	0.2
Memo Items:	103.4								
Collateralized debt[4]	0.0	0.0	0.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	0.0	0.0	0.0						
Contingent liabilities	103.4		0.8	0.0	0.5	0.5	0.0	0.0	0.0
o/w: Public guarantees	103.4		0.8	0.0	0.5	0.5	0.0	0.0	0.0
o/w: Other explicit contingent liabilities[5]	0.0	0.0	0.0						
Nominal GDP	13679.2			13679.2	14613.4	15402.3			

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/capacity constraint.

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

Table 10. Moldova: Indicators of Fund Credit, 2023–2034 1/

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund Obligations Based on Existing Credit (millions of SDRs)												
Principal	41.6	76.5	57.0	44.5	55.1	59.9	57.9	44.9	37.9	17.6	1.9	0.0
Charges and interest	21.3	19.5	16.6	15.5	14.3	13.2	12.1	11.2	10.4	9.7	9.5	9.5
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)												
Principal	41.6	76.5	57.0	44.5	59.5	85.9	114.0	110.8	105.7	85.4	63.4	34.2
Charges and interest	24.0	30.5	31.7	30.3	28.9	26.6	22.8	19.7	16.8	14.0	11.6	10.0
Total Obligations Based on Existing and Prospective Credit												
Millions of SDRs	65.7	107.0	88.7	74.8	88.3	112.5	136.8	130.4	122.4	99.4	75.0	44.2
Millions of U.S. dollars	91.7	149.7	124.6	105.1	124.1	158.0	192.2	183.3	172.0	139.6	105.4	62.1
Percent of exports of goods and services	1.5	2.3	1.8	1.4	1.6	1.8	2.1	1.8	1.6	1.2	0.9	0.5
Percent of debt service 2/	37.5	49.2	48.3	43.8	48.9	51.2	51.7	49.8	48.6	44.2	40.7	32.4
Percent of GDP	0.6	0.9	0.7	0.6	0.6	0.7	0.8	0.7	0.6	0.5	0.3	0.2
Percent of gross international reserves	1.9	3.0	2.5	2.1	2.5	3.1	3.7	3.4	3.1	2.5	1.8	1.0
Percent of quota	38.1	62.0	51.4	43.4	51.2	65.2	79.3	75.6	71.0	57.6	43.5	25.6
Outstanding Fund Credit Based on Existing and Prospective Credit												
Millions of SDRs	595.1	719.7	707.3	662.8	603.4	517.5	403.4	292.7	187.0	101.6	38.2	4.0
Millions of U.S. dollars	830.7	1,007.5	993.7	931.2	847.7	727.0	566.8	411.2	262.8	142.8	53.7	5.7
Percent of exports of goods and services	13.8	15.6	14.2	12.3	10.7	8.3	6.0	4.1	2.4	1.2	0.4	0.0
Percent of debt service 2/	340.2	331.3	385.1	388.0	333.7	235.5	152.5	111.7	74.2	45.2	20.7	3.0
Percent of GDP	5.2	5.9	5.6	4.9	4.3	3.3	2.4	1.6	1.0	0.5	0.2	0.0
Percent of gross international reserves	17.6	20.4	20.0	18.7	17.0	14.2	10.8	7.6	4.8	2.5	0.9	0.1
Percent of quota	345.0	417.2	410.0	384.2	349.8	300.0	233.9	169.7	108.4	58.9	22.1	2.3
Net Use of Fund Credit (millions of SDRs)	120.9	124.7	-12.5	-44.5	-59.5	-85.9	-114.0	-110.8	-105.7	-85.4	-63.4	-34.2
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
Repayments and repurchases	41.6	76.5	57.0	44.5	59.5	85.9	114.0	110.8	105.7	85.4	63.4	34.2
Memorandum Items:												
Exports of goods and services (millions of U.S. dollars)	6,008	6,471	7,002	7,599	7,956	8,746	9,370	10,037	10,753	11,519	12,340	13,220
Debt service (millions of U.S. dollars) 2/	244.2	304.1	258.0	240.0	254.06	308.7	371.6	368.1	353.9	315.8	258.9	191.6
Nominal GDP (millions of U.S. dollars) 2/	15,829	16,979	17,744	18,868	19,756	21,717	23,265	24,923	26,699	28,602	30,640	32,824
Gross International Reserves (millions of U.S. dollars)	4,729	4,934	4,964	4,971	4,987	5,120	5,255	5,390	5,526	5,663	5,800	5,938
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
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

Sources: IMF staff estimates and projections.

1/ Assume repurchases are made on obligations schedule.
2/ Total debt service includes IMF repurchases and repayments.

Table 11. Moldova: Schedule of Reviews and Disbursements 1/

Available on or after	Amount of Disbursement/Purchase (SDRs)			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	44,562,500	19,037,500	25,525,000	25.83%	11.04%	14.80%	Observance of end-December 2024 performance criteria, continuous performance criteria, and completion of seventh 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 172,500,000.

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, refugee flows, FDI and financial flows, and payment systems.	High	**Short to Medium Term**	High • Disruptions in trade and international sanctions put pressure the current account and adversely affect net exports. • Further escalation of the war leading to new waves of refugee inflows to Moldova could put additional pressures on the government budget. • Increasing uncertainties and confidence effects related to the war in Ukraine lead to an acceleration of MDL depreciation and 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 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
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	**High**	**Short to Medium Term**	**Medium** • Economic activity and supply disruptions are likely, as 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 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 markets fragmentation. **In Europe:** Intensifying fallout from the war in Ukraine, worsening energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns and housing 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.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
In EMDEs: A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops.				• Seek additional donor support.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium**	**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 to Moldova would force the country 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. • Allocate additional budget resources to targeted measures that shield most vulnerable segments of the population through transparent processes. • Implement measures to ration demand. • Extend support to the energy regulator to ensure energy sector security. • Closely monitor inflation.
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor 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. • Clear communication is key to continue firmly anchor inflation expectations. • Implement support measures for the most vulnerable.

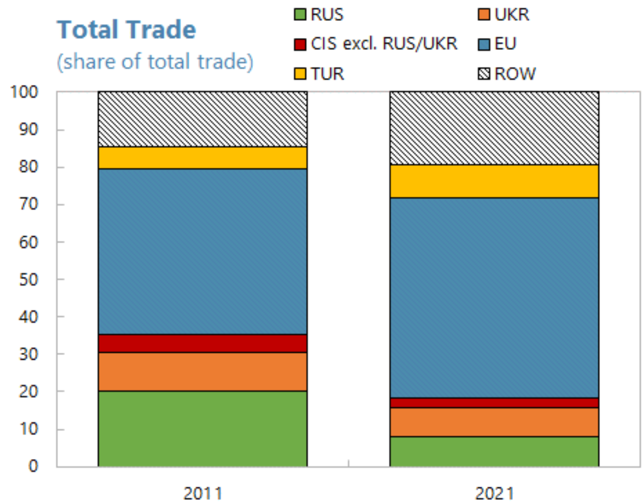
Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
		Structural Risks		
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological 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 critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) 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.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	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. • Use monetary policy to address second round effects of commodity prices shocks.

Country-specific Risks				
Feedback loops from corporate balance sheets and spillovers from non-banks to banks, resulting from to 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.
Governance weaknesses and 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. Spillover from the War in Ukraine on Moldova's Trade Flows

1. **Moldova's merchandize trade composition and structure have changed in the past decade.** Moldova expanded the number of its export and re-exports products from 92 in 2011 to 95 in 2021, with the number of its export markets rising from 98 to 145 during the same period, highlighting the range of its diversification. Prior to the war in Ukraine, during 2011–2021, Moldova had gradually reduced its trade dependency with countries classified as the Commonwealth of Independent States (CIS),[1] especially with Russia, and progressively increased its trade with the European Union (EU) and Turkey (Figure 1). Most of Moldova's trade is with the EU, which has helped insulate Moldova from the fallout of the war in Ukraine.

Figure 1. Developments in Moldova's Trade, 2011 and 2021



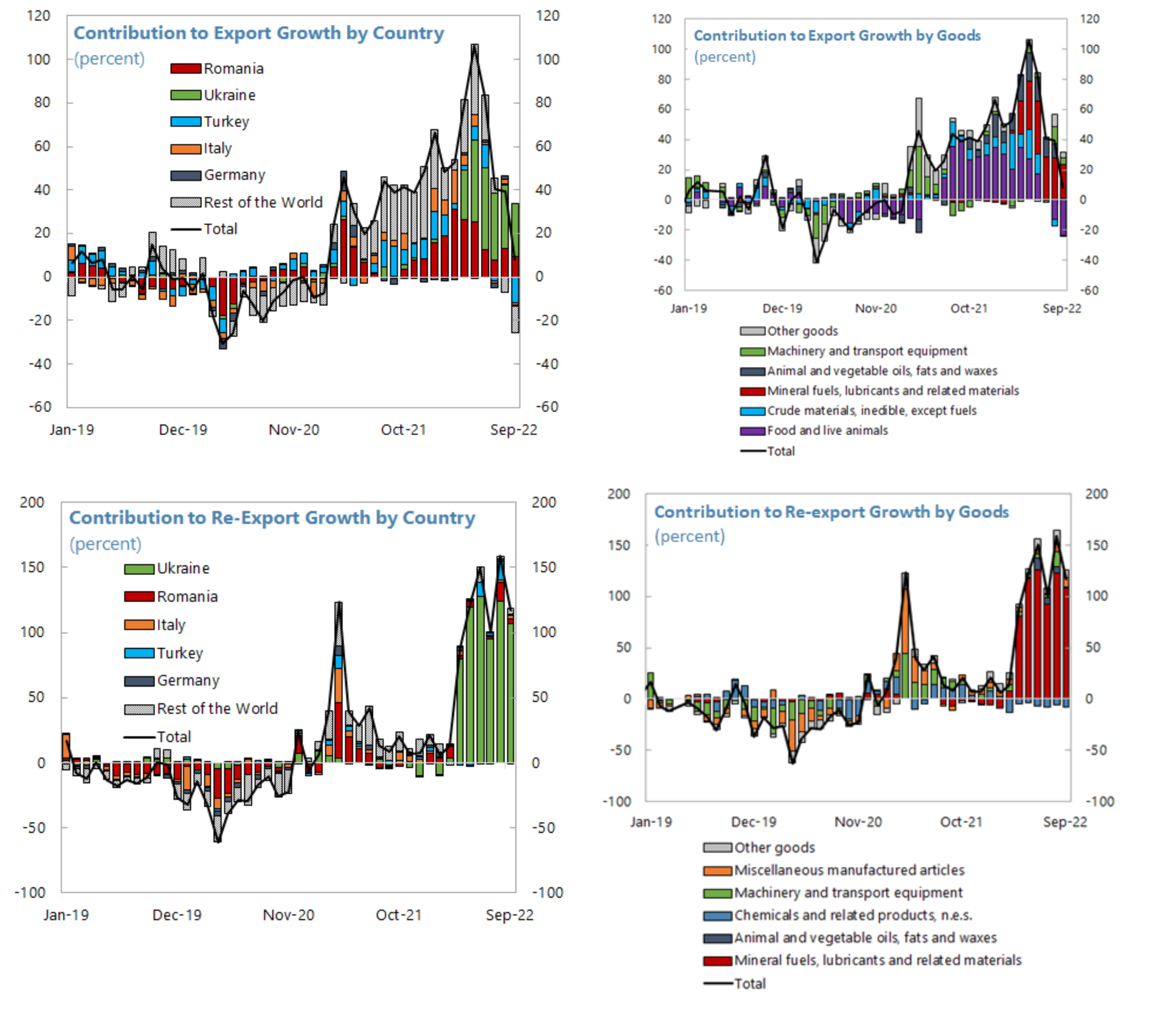
Sources: UN Comtrade

2. **Further changes to the exports and re-exports occurred in the first half of 2022, with a sudden surge in exports to Ukraine (Figure 2).** During January-September 2022, total export of goods from Moldova reached about $3.3 billion, a 55.8 percent y/y jump from 2021. Over half of these flows was destined to the EU, with Romania accounting for almost a third of the exports, reflecting its proximity to Moldova. Exports comprised of fresh agricultural produce, live animals, grains, electrical machinery and electronics, and non-knitted clothing accessories. Due to the war in Ukraine, Moldova benefited from trade diversion, with a significant share of goods destined to Ukraine transiting through Moldova in the first half of 2022 exclusively via land transport. Exports to Ukraine, comprising mostly of fuels and oils, electrical and electronics, machinery, and transport equipment, and food and live animals, surged to above $90 million in June 2022 up from about US$5.8 million in June 2021, a 946 percent increase y/y. Similarly, re-exports to Ukraine (originating

[1] Moldova's National Bureau of Statistics classifies twelve countries as "CIS countries" for trade purposes: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Georgia and Ukraine withdrew from CIS in 2008 and 2018, respectively.

mostly from Romania) also spiked by over 8,600 percent y/y, reflecting the base effect of low re-exports in the previous years, to about $80 million in June 2022 from less than one million in June 2021. The share of Moldova's grains exports in the first half of 2022 increased to 113,000 from 86,000 metric tons from last year, partly reflecting transiting of Ukraine's grain exports through Moldova and a bumper wheat harvest in 2021. On the other hand, exports and re-exports to Russia plunged by over 60 percent y/y during the same period. Notably, while re-exports to Ukraine remained resilient throughout 2022, exports slumped in 2022H2 reflecting the impact of the drought on agricultural output, highlighting Moldova's vulnerability to adverse weather conditions and its reliance on low value-added exports.

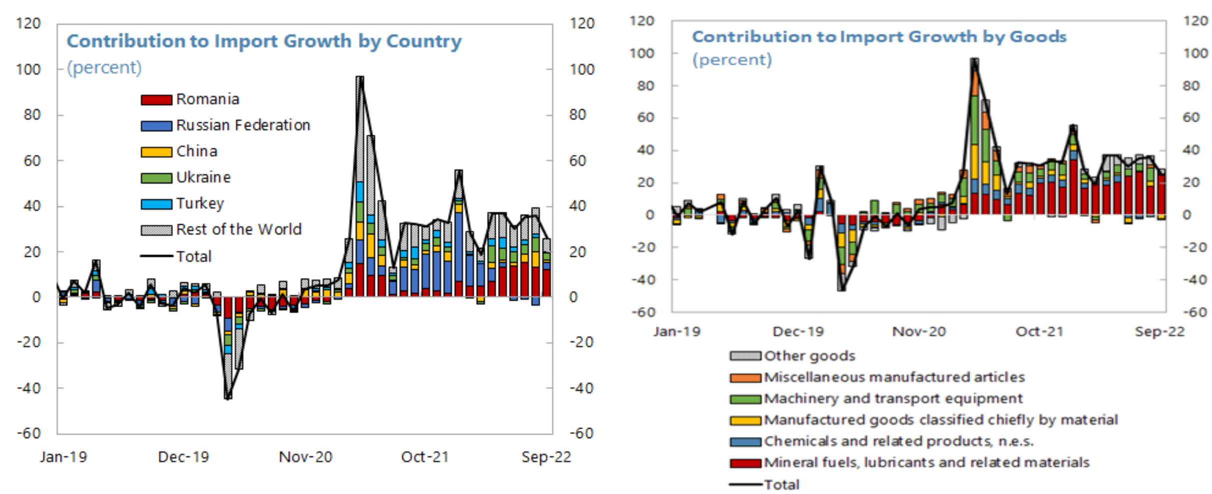
Figure 2. Export and Re-Export Composition and Trends



Source: UN COMTRADE

3. Despite a significant increase in exports and re-exports in 2022, this did not translate to an improvement in Moldova's trade balance deficit. Due to a large share and faster growth of energy in Moldova's imports, offsetting less dynamic and low value-added exports, a price-induced increase in energy imports worsened the trade balance deficit by about 16 percent y/y in the first half of 2022 compared to the same period in 2021. The EU, via Romania, led with the supply of goods to Moldova accounting for about two-thirds of Moldova's total imports. Most of these imports comprised of fuels and oil, electrical machinery and transportation equipment, manufactured goods, motor vehicles, and pharmaceuticals. A third of these products were re-exported to Ukraine.

Figure 3. Imports Composition and Trends



Source: UN COMTRADE

4. Going forward, and for trade to continue playing an integral role in bolstering Moldova's growth in the coming years, policymakers should consider to:

- Boost investment in infrastructure (roads, railroads, and airports) to leverage Moldova as a logistics hub in the reconstruction of Ukraine and enhance its transport network with EU to lower the cost of trade.

- Bridge the skills gap by increasing investment in skilled human capital to raise productivity, upgrade the quality of exported products to higher value-added products and greater linkages to services sector and integrate and rise up in the EU's value chains.

- Increase the scope of digitalization (ICT infrastructure and usage), which is associated with higher export sophistication. However, this is dependent on availability of skilled labor force to support the transition to a digital economy.

- Diversify and increase the share of complexity of its exports away from weather-dependent agriculture-based products – e.g., through nurturing manufacturing and service sectors by enhancing the role of SMMEs.

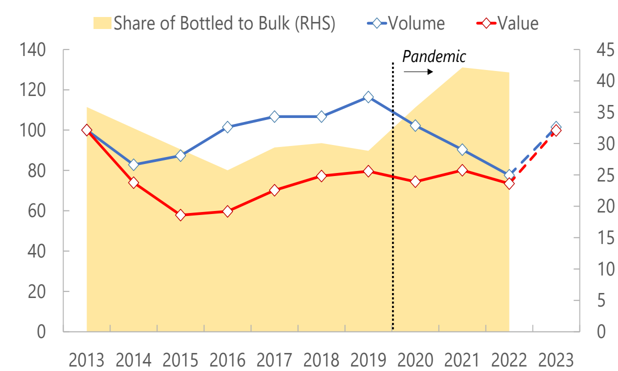
- Improve access to credit, especially for SMMEs.

Annex III. The Wine Industry in Moldova–Impact of the Crises and Climate Change

1. **The Moldovan wine industry is strategically important for the economy, contributing to a large share of exports and employment**. Wine production accounts for about 3 percent of GDP (the highest GDP share derived from the wine industry of any country), 12 percent of goods exports (US$307.5 million in 2021, ranking third amongst exported products) and employs about 15 percent of the labor force (about 130 thousand people). Viticulture is also an important industry for attracting international capital with about 22 percent of wineries owned entirely or partially by foreign investors.

2. **The volume of Moldovan wine exports has been disrupted by the pandemic and the war in Ukraine, but quality improvements have ensured some resilience in their value**. The main export destinations for Moldovan wine are Romania, Russia (mostly bulk), Poland, Czech Republic, Ukraine, and China. There was a marked decline in the volume of wine exports during the pandemic. However, the increased focus on improving quality led to a rise in the share of bottled wine exports since 2016, ensuring that the overall value of wine exports remained relatively unaffected given the higher pricing for bottled wines. The onset of war in 2022 introduced further bottlenecks including a blockage of the main transportation route through Odessa and reduced bulk exports to Russia and neighboring countries. While Russian sanctions on Moldovan wines have significantly reduced Moldovan wine exports,[1] the wine sector has managed to reposition itself in other external markets through improvements in technology aided by international partners (such

Wine Exports in Moldova
(index on LHS with 2013=100 and percent share on RHS)



Sources: RVV-ONVV
Note: 2023 is estimate based on Jan-Feb data.

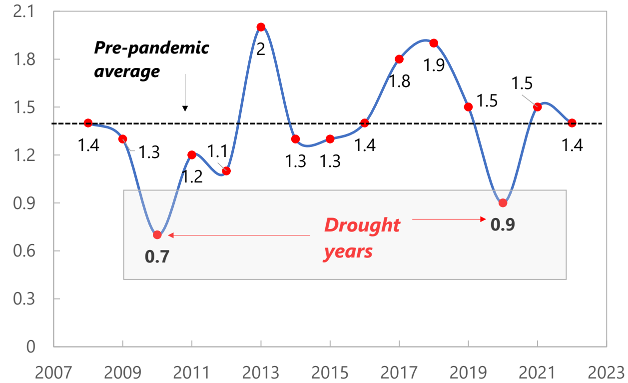
[1] Russian sanctions on Moldovan wine were introduced in 2006 (see IMF country report 07/725), 2013, and more recently in 2020. The most recent sanctions pertain to the law 468-FZ whereby mandatory labeling requirements protect domestic producers from import competition (in the case of Moldova, for bulk wines).

as the EIB and USAID).[2] The opening of a new transportation corridor through Constanza has enabled wine exports to rebound in 2023.

3. Disruptive climate change can significantly reduce wine production, highlighting the critical need for early investment in adaptation measures. On a global scale, the impacts of climate change on viticultural sector can be substantial, with cultivation decreasing by 25 to 73 percent in major wine producing regions by 2050 in the higher 4°C climate concentration pathway.[3] For Moldova, episodes of agricultural drought have had a severe negative impact on wine production with output falling by almost half compared to normal period yields. The wine industry is also especially vulnerable to earthquakes due to the high risk of steel tank failure and wine bottle breakage.[4] Agricultural adaptation and conservation efforts such as through increased irrigation and shift to organic wine production will be critical to mitigate the adverse impacts on the wine industry and maintain competitiveness in the world market.

Wine Production in Moldova

(million hl)



Sources: RVV-ONVV

[2] USAID support helped set up the public-private National Office for Vine and Wine which worked to harmonize wine regulations to EU standards (Law 262/12, 2012). EIB credits were directed at improving technology and streamlining production into quality wines of indigenous varieties.

[3] See Hannah et. al. (2013) and Morales-Castilla et. al. (2020), PNAS.

[4] The region of Cahul was identified by the Wine Risk index as having the third highest risk from natural perils (earthquake, hail, frost, and floods) among all the world's wine regions (World Bank, 2020).

Appendix I. Letter of Intent

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

Chişinău, Moldova
April 4, 2023

Dear Ms. Georgieva:

1. The attached provide updates to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) of December 15, 2022. The MEFP reports on recent economic developments, reviews progress in implementing Moldova's program under the ECF/EFF arrangements and sets out macroeconomic and structural policies that we plan to implement.

2. In the wake of spillovers from the protracted war in Ukraine, the rising cost of living, and weaker-than-anticipated agricultural production, our economy endured a severe recession in 2022. We anticipate a modest economic recovery in 2023, driven by a rebound in domestic demand and agricultural output, higher growth across trading partners, and supportive monetary and fiscal policies. So far, we have managed to preserve energy security in the near term through careful implementation of our contingency plans, which allowed us to diversify our gas supply sources. After reaching its high in October 2022, inflation has decelerated, prompting monetary policy relaxation. The ECF/EFF program continues to play a crucial role in triggering substantial help to overcome the challenges posed by intensifying external and internal headwinds.

3. In a challenging environment, we have managed to keep program implementation on track for the most part. We met all end-December 2022 quantitative and indicative targets. We also met two structural benchmarks: in August 2022, we selected the director of the Anti-Corruption Prosecution Office (APO), and in March 2023, we amended the secondary legislation to include tax expenditure reviews in the yearly state budget planning process. However, we missed two end-December 2022 structural benchmarks on amendments to limit the mandates of the Anti-Corruption Prosecution Office (APO) and the National Anti-Corruption Center (NAC) to high-level corruption and to the criminal and criminal procedure codes to add clear criteria for the application of simplified proceedings. These were implemented as prior actions for this review in April 2023.

4. We are requesting a waiver for non-observance of the continuous performance criterion on the non-accumulation of external payment arrears based on corrective measures taken. Russia terminated the moratorium on repayment of obligations related to old commercial debt and requested an amendment of the debt contract to allow for repayment in rubles and avoid accumulating fines after January 30, 2023. We requested the initiation of discussions on options to meet the obligations under the contract. Meanwhile, in line with the TMU, we created an escrow account at the NBM on March 31 and deposited the outstanding amounts (in US dollars, the original contract currency) to ensure that we do not incur arrears under the program.

5. To support our ongoing efforts, we request the completion of the third review of the ECF/EFF program and the release of the fifth tranche in the amount of SDR 70.95 million (41.13 percent of the quota, or approximately US$94.9 million). We believe that the policies outlined in the accompanying MEFP are sufficient to meet our program's objectives. 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. In accordance with our commitment to transparency, we approve publication of this letter, the MEFP and its attachments, and the accompanying staff report by the IMF.

Sincerely yours,

/s/

Dorin Recean
Prime Minister

/s/

Veronica Sirețeanu
Minister of Finance

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. **Russia's war in Ukraine continues to fuel security and socio-economic concerns.** Our country's proximity to the war and Russia's continued presence in the breakaway region of Transnistria continues to pose exceptional uncertainty. We continue to host more Ukrainian refugees per capita than our European peers, about 4 percent of Moldovan population, of which females and children comprise 60 percent and 40 percent, respectively. Effective March 1, 2023, our government approved temporary protection for Ukrainian refugees and certain third-country nationals, to facilitate access to employment, accommodation, emergency primary medical assistance, public education for children, and some social assistance. With the war entering its second year, geopolitical tensions in the region continue, increasing the risks of destabilization in Moldova. Meanwhile, the continued influence of vested interests and the resumption of protests compromise the fragile social fabric and political stability. Against this backdrop of risks, the new government, in place since end-February, will prioritize strengthening state institutions, supporting economic recovery, enhancing contingency planning, and enforcing state security.

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. However, risks remain in the electricity sector due to dependency on month-to-month contracts of electricity supplies from Transnistria. In February, MGRES provided about 88 percent of the total electricity demand, while Romania and domestic suppliers contributed about 12 percent. We have secured electricity deliveries from MGRES for March 2023, but uncertainty remains with respect to future supplies.

3. **The economy contracted sharply in 2022, and a modest recovery is expected in 2023.**

- *Growth*. The economy is estimated to have contracted by 5.9 percent in 2022, significantly larger than projected at the time of the second review of the program. Economic activity was adversely affected by depressed domestic demand due to the soaring cost of living, spillovers from the protracted war in Ukraine, weaker-than-expected agricultural production, and an overall tight policy mix. We project economic activity to grow modestly by 2 percent in 2023 on account of: (i) a recovery of domestic demand supported by higher public wages and pensions, public infrastructure spending, lower inflation, monetary easing, and improved credit conditions; (ii) a rebound of agricultural output as the sector recovers from the drought last year; (iii) favorable tailwinds from stronger growth of trading partners; and (iv) a supportive fiscal policy stance.

- *Inflation*. Headline inflation declined to 25.9 percent yoy in February 2023 from a peak of 34.6 percent in October 2022. Although inflation remains high, it is expected to continue decelerating in the coming months, steered by carefully calibrated monetary policy and supported by moderating global food and energy prices.

- *Fiscal position.* The fiscal deficit in 2022 was 3.3 percent of GDP, reflecting continued trends of under-execution, particularly on goods and services and capital expenditures. Adjusting for the recapitalization of the energy state owned enterprise (SOE), Energocom, to secure gas reserves, the general government deficit reached 5.5 percent of GDP, compared to the budget-approved deficit of 6.2 percent of GDP. Revenue performance remained resilient, underpinned by an inflationary effect on value-added and corporate income taxes, while excise duties grew moderately, reflecting war-related trade disruptions and subdued domestic consumption. On expenditure, targeted transfers for households, wages, and the procurement of natural gas for the winter season led to increased spending in 2022H2. Cash buffers reached MDL 1.9 billion (0.7 percent of GDP) at the end of 2022, reflecting strong external support, revenue overperformance, and expenditure under-execution.

- *External*. The current account deficit reached about US$1.6 billion (15.3 percent of GDP) in 2022Q3, driven by a sizeable trade deficit, reflecting weak exports (in part due to poor agricultural output) and higher energy price-induced imports. Gross foreign exchange (FX) reserves recovered above pre-war levels to about US$4.5 billion as of end-February 2023, boosted by significant disbursements of external financial support and due to increased reserve requirements for foreign exchange-denominated deposits. At this level, the FX reserves provide adequate cushions against external shocks.

- *Monetary and financial policies.* The strong disinflationary outlook has led to an easing of the monetary policy cycle, already reversing some of the tightening initiated in July 2021. The financial sector has continued to show resilience, with deposits and liquidity buffers exceeding pre-war levels. However, credit growth has moderated on the back of tighter monetary policy, the introduction of borrower-based prudential measures, and tighter due diligence to contain excessive risk taking.

4. Risks remain high and tilted to the downside, and the outlook is subject to extreme uncertainty. The duration of recent shocks and the outlook for the energy sector are highly uncertain. Prolonged or additional energy shocks could aggravate Moldova's economic outlook, resulting in fiscal and balance of payments pressures, stifled consumption, and output losses. Should inflationary pressures increase, confidence deteriorate further, or additional external shocks occur, policy trade-offs may become even more challenging. Social unrest over the cost-of-living crisis and political discontent over—appropriate but difficult—policy decisions may also upset Moldova's fragile socio-political equilibrium. 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 pressures on public finances. However, 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

5. Our program implementation remains strong quantitatively, but the challenging context caused some delays in the implementation of the structural reform agenda. We met all the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2022. Of the three structural benchmarks (SBs) for end-December 2022, we: (i) established the special pre-selection committee, which includes experts with international experience, and appointed an individual with the necessary skills and irreproachable reputation to the head of the Anti-corruption Prosecution Office (APO) ahead of schedule as reported at the second review; (ii) amended the relevant legislation to narrow the mandates of the APO and the National Anticorruption Centre (NAC) to high-level corruption with a delay in April 2023 (missed SB, **prior action** for this review); and (iii) amended the criminal and criminal procedure codes to add clear criteria for simplified proceedings and to prohibit the reduction of a term of imprisonment in corruption cases below the statutory minimum with a delay in April 2023 (missed SB, **prior action** for this review). We have adjusted the relevant secondary legislation to institutionalize tax expenditure reviews to be part of our annual state budget planning process (**end-March 2023 SB**).

6. We request a waiver for non-observance of the continuous performance criterion on no accumulation of external payment arrears based on corrective measures taken. Russia terminated the moratorium on debt repayments on January 30, 2023. The Russian Ministry of Finance asked for the immediate action by the Moldovan authorities to amend the contract to allow for repayment in rubles—that could be received through a transit currency—to avoid accumulating fines after January 30. As the change of payment currency requires an amendment to the existing debt contract, we have requested an initiation of discussions on options to meet obligations under the contract. Meanwhile, in line with the TMU, we have created an escrow account at the NBM on March 31 and deposited the outstanding amounts (in US dollars, the original contract currency) to ensure that we do not incur arrears under the program, with the following conditions: (i) no third party (including the Treasury or the Ministry of Finance) will have 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.

7. We are interested in access under the newly created Resilience and Sustainability Facility (RSF), with discussions taking place in the context of the upcoming fourth ECF/EFF review. Our country's exposure to adverse climate events is similar to other European countries. However, our adaptation capacity is significantly weaker due to limited investments in climate-related infrastructure, weaknesses in climate risk and disaster management, and public finance management frameworks. The RSF resources could help close adaptation gaps by supporting climate-related policy goals and sustainable long-term economic development, while catalyzing official and private financing to support green investments.

III. Policy Framework

A. Fiscal Policy

8. **The approved 2023 budget is focused on mitigating the economic and social fallout of the war and the energy shock**. The budget is in line with the macro-framework agreed with the IMF staff to bring the general government deficit to 6 percent of GDP. It prioritized measures to respond to the cost-of-living crisis and ensure energy security. To safeguard **social protection,** we indexed pensions in line with growth in social security contributions (1.2 percent of GDP) and increased allocations for existing social assistance programs, including Ajutorul Social Program and APRA—heating assistance (0.5 percent of GDP). To mitigate purchasing power erosion due to **high cost of living,** we increased public sector wages (0.5 percent of GDP). To protect the most vulnerable from **energy price shocks**, we allocated emergency contingency funds for energy and implemented the targeted energy poverty reduction scheme (1.6 percent of GDP). On the revenue side, we widened the VAT base by removing exemptions on specific imported items, increased excises for tobacco and alcohol (in line with discussions in the EU accession process), and supported the small, micro, and medium-sized enterprises (SMMEs) by approving a zero-rate on undistributed income (subject to a sunset clause) to support their liquidity positions. The deficit will be financed by funding from our development partners, notably the EU's macro-financial assistance, World Bank's development policy financing, the IMF, and from domestic sources.

9. **As pressures from the overlapping energy and cost-of-living crises subside, we plan to gradually reorient our spending priorities towards supporting economic recovery.** We see increasing infrastructure spending, particularly in roads, and addressing severe capacity constraints in the civil service as priorities. Towards these objectives, we are starting preparation for a supplementary budget that would reflect most recent expenditure execution, revenue trends, and available external financing. We are committed to achieve these within the agreed general government fiscal deficit target under the program, while preserving adequate contingency buffers to safeguard energy security envisaged in the originally approved budget.

10. **We recognize that the risks around the baseline are high, particularly with increasing 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. **Our medium-term fiscal policy will continue to be guided by the overarching objective of pursuing developmental goals while preserving fiscal sustainability.** We will focus on revenue mobilization efforts aimed at greater efficiency in tax administration while reducing tax expenditures. The nominal depreciation and response to shocks will increase public debt towards 45 percent of GDP, the level anchoring the program. We are committed to a declining path over the medium term once the current crises dissipate to retain sufficient buffers against contingent liability risks and shocks. Our

medium-term budget framework will target general government deficits of about 4.6 to 3.4 percent of GDP in 2024–26. Underpinning this will be reforms to mobilize domestic revenues, improve tax administration, and promote development-focused spending—prioritizing capital spending on roads, energy diversification, and water, investments in health and education, as well as encouraging SMME growth and job creation—supported by enhanced spending efficiency, domestic market development, and strengthen fiscal governance and transparency.

Reforms to Strengthen Revenue Mobilization

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

- **Identify tax relief provisions for phasing out.** We have adjusted the relevant secondary legislation to institutionalize tax expenditure reviews to be part of our annual state budget planning process (**end-March 2023 SB**). Building on the progress made, we intend to extend the tax expenditure analyses to include excise, customs, and real estate tax (**end-December 2023 SB**). Moving forward, we intend to prepare a proposal identifying tax expenditures to be phased out based on cost-benefit analysis. This will help eliminate abusive practices, reduce tax system inefficiencies, and mobilize domestic revenues.

- **Continue strengthening tax administration.** We will continue to improve the organizational structure and capacity of the State Tax Service (STS) in line with IMF TA, including TADAT recommendations, by: (i) strengthening STS capacity to investigate and refer tax crimes for prosecution by signing relevant protocols, addressing gaps in legislation, and organizing training and technical assistance from the IMF; (ii) launching the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes by September 1, 2023; (iii) introducing a General Anti-Avoidance Rule provision in the Tax Code to counter domestic and international abusive tax practices (**end-September 2023 SB**); and (iv) 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 phasing out the favorable treatment of carbon 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 review the energy sector taxation regime, following a thorough assessment of social and economic considerations.

- **Advance customs reforms in a number of important areas.** The Parliament approved a new customs code in August 2021, developed in consultations with the EU, that aims to align our customs regulations and procedures with international best practices and bring it closer to EU directives effective January 1, 2024. To support the implementation of the new customs code, we are developing relevant regulations. In line with our commitments with the EU and to strengthen deterrence capacity of anti-smuggling policies, we amended the relevant legislation to: (i) reduce the legal threshold for determining smuggling as a criminal offence and raised administrative fines for such violations; and (ii) define the smuggling offense base to include duties, taxes, and other fees. The WHO Protocol to Eliminate Illicit Trade in Tobacco Products, which aims to reduce revenue leakages and smuggling, was ratified in Parliament in March 2022. Going forward, we will update the relevant legislation to facilitate implementation of the Protocol.

- **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, can be used to enhance corporate transparency, 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 and the quality of beneficial ownership information, as well as strengthen the cooperation between the tax authority, financial intelligence unit, and law enforcement bodies.

Reforms to Improve Budget Quality and Fiscal Transparency

13. We firmly believe in the importance of transparent 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 and agriculture sectors and plan to complete a spending review in the health sector in 2023. With a view to implement relevant recommendations from the completed spending reviews, 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 as a prerequisite for any major reforms in this area, as well as monitoring the implementation of recommendations of spending reviews related to improved quality of education, as well as 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 of planned expenditures and may not fully consider the short- and medium-term fiscal impact of approved policies. We plan to adopt the MTBF for the period 2024-26 by end-May. 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 the PFM systems for 2023-30. The strategy aims to improve planning and budgeting to increase public finances' efficiency, performance, and transparency. It articulates strategic interventions aimed at improving the fiscal framework, strengthening the planning, execution, and reporting of public finances, improving revenue administration to increase collection, strengthening the public procurement system, and increasing transparency and accountability.

- **Strengthen fiscal responsibility framework and budget transparency.** We will review the performance of our fiscal responsibility framework in place since 2018 with a view to reduce the procyclicality of the deficit rule, limit escape clauses, and strengthen fiscal oversight and budget transparency.

- **Strengthen public procurement**. We publish the beneficial ownership information of all entities contracting with public authorities on the website of the Public Procurement Agency (PPA). 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 within the relevant governmental bodies to improve efficiency and fast-track procurement of government contracts. The government also intends to approve a roadmap for the next four years by approving the Public Procurement Development Program, 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.

- **Enhance disclosure and 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 PPPs, large 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 narrative within the Fiscal Risk Statement. 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. In September 2022, we amended the law on public debt (Law 419/2006) and the secondary legislations in March 2023 to: (i) improve the quality of the statistical data of the public sector debt (based on IMF mission recommendations); (ii) regulate the direct issuance of government securities to retail investors and their transactions on the primary and secondary markets; (iii) regulate the monitoring of the primary dealer's activity; and (iv) regulate the authorization process of contracting debt and issuing guarantees. To deepen the debt market for government securities and facilitate domestic financing, we will strengthen our operational capacity, and take steps to further develop the primary dealer system and develop a new platform for retail investors. To preserve debt sustainability, we will remain prudent regarding our borrowing strategy, including by prioritizing 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 our growth and equity objectives. We will:

- **Strengthen our public investment management (PIM) framework to enhance the execution and quality of public investment and close large infrastructure gaps.** Guided by the 2019 PIMA report recommendations, we aim to strengthen the planning, allocation, and implementation stages of our PIM cycle. To this end: (i) in March 2022, we published on the Ministry of Finance webpage five reports on the execution of investment projects undertaken by the developmental funds (Regional Development Fund, Road Fund, Environment Fund, Energy Efficiency Fund, and foreign-financed projects) in the previous fiscal year, with a requirement to update these reports annually as part of the budgetary preparation and reporting; and (ii) in September 2022, we amended legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and development funds. To facilitate the implementation, enhance transparency, and further strengthen the PIM framework, 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. With the IMF technical assistance, we plan to undertake a **Climate Public Investment Management Assessment**, the C-PIMA diagnostic, to identify potential improvements in public institutions and processes to build climate resilient infrastructure by 2023H1.

- **Strengthen the unitary pay system in the budgetary sector.** We plan to undertake an analysis of the unitary pay system in the budgetary sector to improve the wage-compression ratio, strengthen the budgetary process, and address critical staffing needs. Towards this objective, and leveraging recommendations of IMF technical assistance, we plan to improve reporting of public funds going towards employee expenses to include public institutions, continue consolidating reference values in the government pay scheme, and review the cost-of-living adjustment mechanism for public sector pay. In December 2021, we launched a fully operational comprehensive IT-based staff registry, as a pilot, covering employees of the Ministry of Finance and the STS; and are working on expanding the system to cover the Customs Service, the Financial Inspectorate, and the PPA. We have expanded the coverage of a comprehensive IT-based staff registry to all ministries and are working to also cover all remaining employees of central government.

- **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 increased pensions by 14.5 percent in line with projected social security contributions growth. 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 and improve the targeting of social assistance programs. 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 APRA (cold-season benefit) 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. We updated our Poverty Reduction Strategy Paper (PRSP), "European Moldova - 2030", and adopted it in Parliament in November 2022.

- **Implement a targeted energy poverty reduction program.** Toward this objective, we launched the Energy Vulnerability Reduction Fund (EVRF) starting with the 2022-23 heating season to protect the vulnerable from rising energy costs and support the transition of households towards more energy-efficient appliances. We registered 760,000 out of 1,300,000 homes for the subsidy. About 78 percent of the households were classified as highly vulnerable across the five categories (including a non-eligible category) based on welfare indicators, income proxies, family characteristics, type of heating system, and consumption levels. Benefitting from lower international energy prices and more favorable weather conditions, the scheme has realized monthly savings of about 20-30 percent of the total estimated cost of about MDL 1 billion a month, providing a welcome buffer for the 2023-24 heating season. The subsidy is implemented through the EVRF (Law approved by the Parliament on July 28, 2022). We will work with the UN agencies to improve targeting and achieve integration of Ajutor Social, APRA, and EVRF to further increase the efficiency of reducing poverty rates and vulnerability of beneficiary families to future shocks.

- **Scale up investment in disaster and climate risk mitigation and response.** With support from the World Bank, we are conducting diagnostics which will form the basis for the Country Climate and Development Report (CCDR) and will be completed by FY2023-24. Sectors particularly exposed to climate change relates risks include: (i) agriculture and forestry, key pillars of the economy, especially for employment, as well as water and infrastructure, including at the local and municipal level; and (ii) the energy sector, where the distribution and transmission infrastructure may be impacted by extreme weather and potential to reduce energy imports through development of renewable sources could be compromised. Moldova's systemically important agricultural sector continues to be vulnerable to natural disasters, with imminent risks to the livelihoods of numerous producers and households. In cooperation with the World Bank, we will explore measures to strengthen the sector's resilience, including by building farmers' capacity for sustainable agricultural practices and climate adaptation measures, expanding access to irrigation, adopting drought-resistant crop varieties and anti-hail protection, and developing innovative insurance schemes. In addition, Moldova is exposed to significant and potentially high-impact seismic risks which can have a devastating impact on the country, both in terms of loss of life and the economy.

- **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 target 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 2023. Against this disinflationary outlook, the NBM lowered the required reserves ratio in domestic currency by 6 percentage points in two steps to 34 percent, effective January and February 2023, to boost market liquidity and lending to the public and private sectors. The required reserves for foreign currency deposits were left at 45 percent widening the gap to 11 percentage points. The NBM also lowered the policy rate from 21.5 percent in August 2022 to 14 percent in March 2023. However, given the exceptional uncertainty, we remain agile to adjust the pace of monetary policy normalization if high inflation proves to be more persistent or second-round effects emerge. We envisage additional easing to be conditional on headline and core inflation firmly remaining on a downward path.

- ***Foreign exchange interventions.*** The MDL appreciated somewhat against the US dollar since late December 2022 (but remains below its pre-war level), supported by strengthened confidence, a large interest rate differential, and robust external inflows. The considerable external financial support and improved market conditions have enabled gross foreign exchange reserves to be rebuilt to about $4.5 billion by end-December 2022, more than reversing the foreign exchange 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 remain. Banks remain adequately capitalized at 29.5 percent, while aggregate asset quality registered some deterioration, with nonperforming loans at 6.6 percent of total loans at end-January. Liquidity buffers are improving on the back of some reserve requirements relaxation and deposit mobilization. The liquidity coverage ratio at 281 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 recovered, currently about 6 percent above the pre-war level, while the share of FX in total deposits marginally declined to 40 percent. Return on equity and return on assets were 23.9 percent and 4.1 percent, 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. Two banks lost their correspondent bank relationships due to sanctions on Russia and have since established new ones.

17. Banks' lending to households is slowing, but we remain vigilant about the potential buildup of systemic risk. Restrictive monetary policy stance 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 real estate and consumer credit loans decreased by 63.9 percent and 25.7 percent (y/y), respectively, in January 2023. With banking credit growth below its long-term trend, we maintained the counter-cyclical buffer rate at zero and the systemic buffer rate at 1 percent.

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 central bank's independence remains critical for ensuring effectiveness in preserving macroeconomic and financial stability. In this regard, we are strongly committed to fully implement safeguards recommendations. In consultation with IMF staff, we adopted amendments of relevant legislation to strengthen provisions for: (i) 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. Going forward, we will assure NBM's operational autonomy over its assets and introduce staggering mandate for the current NBM's Supervisory Board members, in line with safeguards recommendations.

19. We are fully committed to preserving recent banking sector reforms. To this end, we will 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 reinforced. 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 Bank Recovery and Resolution Law (BRRL).

20. The NBM continues to take all necessary steps in ensuring proper corporate governance and professional management of banks. While we support initial public offerings (IPOs) by domestic banks on reputable stock exchanges abroad, we remain committed to preserving the strength of our supervision framework, particularly including access to information about shareholders, supervisory powers over shareholders, investor jurisdiction regulations, and bank governance.

21. We are determined to strengthen our financial supervision, including by bolstering our financial crisis management and macroprudential frameworks in line with the FSSR recommendations. To this end, the NBM has made progress towards preparing 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**). We have also advanced in the comprehensive review of the bank liquidation framework 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. We are closing gaps in the macroprudential framework, including by amending the NBM Law to provide an explicit legal mandate for financial stability. The NBM also intends to update the macro-solvency stress testing framework. We also intend to amend the relevant legislation to ensure that the NBM can conduct its supervisory work without being curtailed by inappropriate deadlines or other impediments to proper financial sector supervision which were introduced by the 2019 Administrative Code.

22. 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 will strengthen 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.

23. We pledge to contribute to greening the financial system and ensuring that climate risks do not threaten financial stability in line with the NBM's strategic plan. Toward the objective of building climate resilience, we intend to: (i) foster green finance by integrating climate risk in financial sector supervision, including issuing guidance for banks and other financial institutions on the governance, management, reporting, and disclosure of climate-related risks; and (ii) develop the capacity to monitor climate risks in the financial sector to eventually conduct and publish climate stress tests. The NBM is building capacity in green regulation and supervision through various workshops and Sustainable Banking and Finance Network (SBFN) Working Groups and, in line with its strategic priorities, intends to develop its framework for green and sustainable finance by 2025. We also amended our reserves management framework to explicitly allow for investment in green bonds.

24. We are improving oversight of the non-bank sector's viability, corporate governance, and risk management practices. Our immediate focus remains in line with the prior commitment to transfer 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. We are addressing the remaining operational aspects, including the transfer of the National Commission for Financial Markets (NCFM) archives, normative acts, ongoing judicial processes, and human resources.

- ***NBCOs.*** The activation of loan-to-value (LTV) and debt-service-to-income (DSTI) ratios as well as stricter credit worthiness assessment for the NBCOs on September 1, 2022, has contributed to a slowdown (y/y) in non-bank credit by 21.9 percent in December 2022, respectively. We are upgrading the reporting requirements of NBCOs to closely monitor their compliance with the responsible lending regulation and aim to have it ready by July 2023.

- ***Insurance Companies.*** We have modified solvency and liquidity indicators reporting to update the valuation of corporate shares and depreciation of real estate while properly accounting for liabilities under legal disputes. In April 2022, we adopted a new law on insurance and reinsurance activity to transpose Pillar II (corporate governance) and Pillar III (reporting standards) of the Solvency II framework. To facilitate implementation of Pillars II and III of the Solvency II frameworks, the NCFM will develop all critical secondary legislations. The NCFM will adopt secondary legislation on licensing, qualified shareholders, and fit-and-proper and prudential requirements (**end-June 2023 SB**). Going forward, the NBM plans to conduct a Balance Sheet Review for all insurers to evaluate their readiness for the subsequent implementation of Pillar I. In line with the approved financial recovery plan, one insurer has successfully recapitalized. Since April 2022, one insurer is under special administration to foster regulatory compliance due to weak corporate governance and non-compliance with regulatory standards. As this insurer failed to comply with the regulations, even under special administration, the license was revoked on March 9, 2023. The new law on Motor Third Party Liability Insurance, which was adopted in April 2022 will become effective on April 1, 2023.

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

- ***Central Securities Depository (CSD).*** We plan to 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.

- ***Financial consumer protection.*** We plan to entrust the NCFM with the financial consumer protection mandate, including well-defined financial consumer protection responsibilities for all financial services. 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 draft legislation amendments necessary for the reform are under discussion, with a view to approve the legislation by July 1, 2023. We will also ensure adequate funding of the NCFM to perform its new mandate.

26. We are taking steps towards improving financial inclusion. To this end, the NBM is actively modernizing the financial market infrastructure to facilitate cashless payments through the development of the instant payment scheme and, in time, the PSD2-based open banking system. We are working towards joining Single Euro Payments Area (SEPA). As recommended by the FSSR, we are updating the regulatory framework for online identity verification system (e-KYC procedure) by September 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 developing an inter-agency committee with a mandate to develop, implement, and monitor NFIS.

27. 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. To enhance the ability of financial institutions to play their role of gatekeepers, we have been conducting outreach to the sector on better understanding of risks, the implementation of a risk-based approach, 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. We will also strengthen the capacity of regulatory authorities and improve the coordination among all relevant actors, including regulatory authorities, law enforcement, and private sector. 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

28. 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 will establish 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 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.

- With the support of the World Bank, we submitted to Parliament the amendments to the Law on State and Municipal Enterprises in February. These amendments authorize the PPA 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 addition, we submitted for the Government's approval the regulations on the selective process of Supervisory Board members of SOEs and their remuneration.

29. Safeguarding energy security remains our priority amidst mounting risks. Tariff adjustments are a critical element of the policy response to import price increases, with fiscal support subject to the availability of resources in the budget. We have also taken measures to reduce energy consumption.

- ***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 (equivalent to several months of winter consumption) for the current winter season. Energocom continues to buy gas from the markets thereby decreasing the average price for the gas in storage.

- To shield businesses from soaring energy costs, we decided to provide partial compensations capped at 500 cubic meters of natural gas at the end of January 2023. We have allocated MDL 230 million for January-March 2023, of which MDL 25 million was disbursed as of March 13, 2023.

- 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 August 2023, ANRE will issue 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. During January-March, we were able to secure electricity purchases at a beneficial price based on monthly contracts with MGRES, the electricity producer owned by the Russian company Inter-RAO and located in the Transnistrian region. However, given the shortage of gas imported from Gazprom starting with October 2022, MGRES reduced substantially the generation and supply of electricity, creating a need for procurement from spot markets abroad. Further, escalation of targeted attacks on infrastructure in Ukraine led to domestic supply deficits and subsequent cessation of electricity exports even for Moldova. To bridge the shortfall, we secured supplies from Romania through the ENTSO-E, but capacity remains constrained with quantities volatile and prices broadly higher. Resorting to EU traders or spot market acquisitions to cover for the deficit came at a higher cost while cross-border capacity remains limited at 500 MW. We engaged economic agents and households to save energy during peak hours to help balance the demands on the grid.

    - We continue to adjust electricity tariffs to reflect the higher costs. We also provided a direct compensation to the Central Electricity Supplier (single buyer of renewable and cogenerated electricity linked to district heating) to mitigate the impact of rising prices.

E. Rule of Law and Anti-Corruption

30. Strengthening the rule of law and addressing corruption remain critical priorities. We are committed to combatting high-level corruption, eliminating bad actors in the public sphere, 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 access to and delivery of justice. We also recognize the importance of capacity building and ensuring the effective functioning of key institutions. To achieve the foregoing objectives, we are currently reviewing our national anti-corruption strategy to inform the preparation of a new strategy.

31. We recognize the importance and need to strengthen the independence, integrity, and effectiveness of the judiciary. We endeavor to modernize our judicial system in line with recommendations by international bodies and experts. These priorities are contained in our Strategy on Judicial Independence and Integrity, which was adopted by Parliament in early-December 2021. In March 2022, we passed legislation governing the integrity vetting of candidates for the Supreme Council of Magistrates (SCM) and the Superior Council of Prosecutors (SCP) and their respective colleges, based on a transparent process. This process was formulated in consultation with relevant international bodies and is concluded for members of the SCM and will soon commence for members of the SCP. We have begun working on draft legislation applying this extraordinary assessment process to the Supreme Court of Justice (SCJ). We commit to carrying out these reforms in line with constitutional principles and internationally recognized norms and standards. Our reform agenda includes measures to improve systems of recruitment, appointment, evaluation, promotion, and disciplining of judges once the extraordinary judicial vetting is complete. Recent constitutional amendments have paved the way for important reforms to the SCM, namely on the removal of ex officio members, in line with recommendations by the Venice Commission. Transforming the SCJ into a court of cassation to improve the quality of case law remains one of our top priorities. We will continue ongoing reforms to optimize and increase transparency in our court system.

32. We are committed to enhancing the capacity and integrity of our prosecution service. To improve the effectiveness and accountability of the prosecution service, we passed amendments relating to the extraordinary assessment of the Prosecutor General. To ensure that such evaluations are conducted in accordance with principles enshrined in our constitution, we have developed specific criteria and procedures with the necessary safeguards in place and in consultation with international partners. Reforms are needed to improve the current system of evaluating and disciplining prosecutors, including by streamlining disciplinary proceedings and removing the inspectorate of prosecutors from under the office of the Prosecutor General. 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.

33. We are fully committed to tackling entrenched corruption by strengthening the anti-corruption legal framework. In September 2020, we amended the Criminal Code to ensure that the main corruption offences are classified as serious offences. As a result of these amendments, extended statute of limitations and application of protection measures for witnesses and other participants in criminal procedures would be possible in connection with these offences. In 2021, we started a comprehensive reform of our criminal law framework to improve the criminal justice process and enable prosecutorial bodies to more effectively pursue cases and sanction perpetrators. As a part of this process, in consultation with Fund staff, we amended the Criminal Procedure Code to add clear criteria and procedures for the application of simplified proceedings and to prohibit the reduction of a term of imprisonment in corruption cases below the statutory minimum (**prior action**, missed end-December 2022 SB).

34. We will promote the integrity, capacity, and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption. In consultation with Fund staff, we improved the selection process for the head of the APO in April 2022 by amending the Law on the Prosecution Service. We then immediately initiated the process for the selection of the head of the APO, in accordance with the amended Law on the Prosecution Service (**end-December 2022 SB**). The recruitment was completed in June 2022 and the new head of the APO took up her post on August 1, 2022. To ensure that the APO can function effectively and efficiently, we have been analyzing our anti-corruption institutional infrastructure to identify ways to improve criminal law enforcement efforts. Towards this end, we amended relevant legislation to focus the efforts of the APO and NAC to high-level corruption involving investigation or prosecution of: (i) public officials of high office, and (ii) corruption "in large proportions" or "resulting in serious consequences", as defined by the Moldova Criminal Code (**prior action**, missed end-December 2022 SB). We also commit to increase the operational autonomy of the APO by allowing it to have control over its human and financial resources. As a first step, we will implement the 2016 Law on the Prosecution Service, which stipulates that the specialized prosecution services shall have their own budgets. To ensure that the APO operates with an independent budget in 2024, we will 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 (**revised end-June 2023 SB**).

35. Corruption enforcement is increasingly focusing on high-level corruption and recovering criminal proceeds. During the first six months of 2022, the NAC provided support in parallel financial investigations in cases involving 22 former and current members of Parliament, one former president, and one former Chair of Parliament, as well as 7 prosecutors and 3 judges, all holding leadership positions. We have also confiscated criminal assets in the amount of approximately MDL 630 million in the first half of 2022. We are also developing a database of seized assets, allowing for more transparency into the management of confiscated assets and the kinds 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. Towards this end, we aim to improve the effectiveness of our asset declaration regime, including with respect to October 2021 amendments to Law 132/133 requiring a fair market valuation in asset declarations.

36. 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. We will bolster coordination among all domestic stakeholders under the leadership of the State Security Council. We will also establish procedures for post-conviction confiscation and identify a responsible body.

F. 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. However, the operational capacity of the National Bureau of Statistics is hampered inter alia by (i) limited human and financial resources; (ii) inadequacy of the ICT system; (iii) gaps in the legislative framework regarding the access to personal data from administrative and private data sources for statistical purposes; and (iv) poor inter-institution coordination within the National Statistical System (NSS). To this end, we will develop a new multi-year strategic planning document for further development of the NSS that covers improvements in the production and dissemination of official statistics to enhance the quality and accessibility of statistical data. We will develop 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. We plan to strengthen coordination within the NSS and allocate adequate resources to improve data collection and processing.

G. Program Monitoring

38. Going forward, the program will be monitored through semi-annual reviews. The complete schedule of reviews is set out in the accompanying staff report. The quantitative performance criteria (QPCs), inflation consultation clause (ICC), and indicative targets (ITs) have been extended to include targets for March 2024. Two prior actions related to the missed end-December 2022 SBs in the area of anti-corruption have been proposed for the completion of this review. In addition, we request that the end-June 2023 SB to ensure that the APO operates with an independent budget is revised to reflect we intend to achieve this objective by assigning a separate code in the registry of budgetary institutions maintained by the Ministry of Finance, instead of by amending the Order of the Ministry of Finance no. 208/2015 on Budget Classification as was originally envisaged. The QPCs, ICC, and ITs are set out in Table 1, as specified in the Technical Memorandum of Understanding (TMU) attached to our Letter of Intent dated April 4, 2023. The prior actions, along with the SBs, are set out in Table 2.

Table 1. Moldova: Quantitative Performance Targets, December 2022 – June 2024

	2022					2023				2024
	September		December			March [1/]	June	September [1/]	December	March [1/]
	Prog. Target CR 22/320	Actual	Prog. Target CR 22/320	Actual	**Status**	Prog. Target CR 23/6	Prog. Target CR 23/6	Prog. Target CR 23/6	Prog. Target CR 23/6	Proposed Prog. Target
1. Quantitative performance criteria [1/]										
Ceiling on the cash deficit of the general government	14,521	2,950 [5/]	17,219	14,976	**Met**	5,130	7,250	10,890	18,527	4,580
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) [2/]	2,515	4,347	2,692	4,478	**Met**	2,806	2,946	3,046	3,146	3,300
2. Continuous performance criteria										
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	0	**Met** [6/]	0	0	0	0	0
3. Indicative targets										
Ceiling on the general government wage bill	16,505	15,259	21,783	21,400	**Met**	5,640	12,550	18,630	25,618	6,275
Floor on targeted social spending undertaken by the general government [3/]	1,055	1,085	2,065	2,213	**Met**	3,607	4,717	4,882	5,989	2,694
Floor on developmental spending undertaken by the general government [4/]	19,390	23,942	28,654	37,693	**Met**	7,530	14,790	22,980	34,940	7,906
4. Inflation Consultation Bands (in percent)										
Outer Band (upper limit)	37.0		33.0			25.0	16.0	11.5	11.0	8.0
Inner Band (upper limit)	35.5		31.5			23.5	14.5	10.0	9.5	6.5
Center point	34.0	34.0	30.0	30.2	**Met**	22.0	13.0	8.5	8.0	5.0
Inner Band (lower limit)	32.5		28.5			20.5	11.5	7.0	6.5	3.5
Outer Band (lower limit)	31.0		27.0			19.0	10.0	5.5	5.0	2.0

1/ Indicative targets for March 2023, September 2023 and March 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.
4/ Includes health, educational, and infrastructure spending.
5/ Revised from 1.917 in CR23/6 (MEFP Table 1).
6/ Temporarily breached between January 30, 2023 and March 31, 2023.

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

	Measure	Rationale	Timeframe	Status
Prior Actions				
1	Amend relevant legislation to narrow the mandates of the APO and NAC to high-level corruption involving investigation or prosecution of (i) public officials of high office and (ii) corruption "in large proportions" or "resulting in serious consequences", as defined by the Moldova Criminal Code.	Promote the integrity, capacity and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption.		
2	Amend the Criminal and Criminal Procedure Codes to add clear criteria and procedures for the application of simplified proceedings and to prohibit the reduction of a term of imprisonment in corruption cases below the statutory minimum.	Strengthen enforcement of the anti-corruption legal framework		
Structural Benchmarks				
Anti-Corruption and Rule of Law				
1	Amend relevant legislation to narrow the mandates of the APO and NAC to high-level corruption involving investigation or prosecution of (i) public officials of high office and (ii) corruption "in large proportions" or "resulting in serious consequences", as defined by the Moldova Criminal Code.	Promote the integrity, capacity and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption.	end-December 2022	Not met. Set as prior action #1.
2	Amend the Criminal and Criminal Procedure Codes to add clear criteria and procedures for the application of plea bargaining and other sentence reduction or mitigation provisions and to prohibit the reduction of a term of imprisonment in corruption cases below the statutory minimum.	Strengthen enforcement of the anti-corruption legal framework	end-December 2022	Not met. Set as prior action #2.
3	In accordance with the amended Law on Prosecution Service, establish the special pre-selection committee, which includes experts with international experience, and appoint an individual with the necessary professional skills and irreproachable reputation to the head of the Anti-Corruption Prosecution Office (APO).	Strengthen anti-corruption institutions.	end-December 2022	Met.
4	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	Revised structural benchmark.
Fiscal Governance				
5	Amend legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and extrabudgetary funds.	Strengthen the public investment management framework	end-September 2022	Met.
6	Institutionalize tax expenditure reviews to be part of the annual State budget planning process.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax	end-March 2023	
7	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	end-December 2023	
8	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	
9	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	
Financial Sector Oversight				
10	Strengthen 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 the institutional autonomy and governance of the NBM	end-October 2022	Not met. Adopted in December 2022.
11	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	
12	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	
SOE and Regulatory Framework Reforms				
13	The government will develop and adopt 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.	Improve SOE governance and reduce fiscal risks	end-September 2022	Not met. Adopted in December 2022.
14	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	

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

[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).

subscriptions to foreign financial institutions, long-term non-financial assets, funds disbursed by 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

[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.

government's net placement of securities outside the banking system, other net credit from the 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

	2022		2023				2024
	September	December	March	June	September	December	March
Outer Band (upper limit)	37.0	33.0	25.0	16.0	11.5	11.0	8.0
Inner Band (upper limit)	35.5	31.5	23.5	14.5	10.0	9.5	6.5
Center point	**34.0**	**30.0**	**22.0**	**13.0**	**8.5**	**8.0**	**5.0**
Inner Band (lower limit)	32.5	28.5	20.5	11.5	7.0	6.5	3.5
Outer Band (lower limit)	31.0	27.0	19.0	10.0	5.5	5.0	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$79.6 million and US$290.5 million respectively, in 2022, valued at the program exchange rates.

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

	2022		2023				2024
	September	December	March 2/	June	September 2/	December	March 2/
	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)	278	476	170	341	511	681	35
Programmed external financing flows to adjust the ceiling on the cash deficit (MDL million)	5,494	8,899	3,505	7,010	10,515	14,020	729

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	Monthly, within three weeks of the end of each month
- Local government domestic debt	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 and NBM)	
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).

Statement by Luc Dresse, Alternate Executive Director for Republic of Moldova and Veronica Volociuc, Advisor to Executive Director
April 26, 2023

The authorities greatly appreciate the Fund's engagement with the Republic of Moldova over the past years. They would like to thank Mr. Atoyan (outgoing mission chief), Ms. Mira (incoming mission chief), Mr. Chawani, Resident Representative, and the entire IMF mission team for the constructive policy dialogue to address the overlapping crises facing Moldova while pursuing its reform and development agenda. They value staff's candid engagement in conducting the third review of the ECF-EFF program. Notwithstanding the complex circumstances created by the severe spillovers of Russia's war in Ukraine, the authorities have continued to implement the program diligently. The recent change of government was swift and smooth, and the new administration has taken full ownership of the program. Its agenda is focused on strengthening the capacity to support the recovery and respond to the ongoing shocks, as well as improving contingency planning and strengthening state security. The authorities share staff's assessment and emphasize the extremely high uncertainties on the horizon related to the war and energy security risks.

<u>Russia's war in Ukraine and its proximity to Moldova have adversely impacted the economic and social environment, while the elevated risks and extreme uncertainties generate additional pressures.</u>
The economy suffered a sharp contraction in 2022, driven by lower private consumption and investment. Real GDP contracted more than expected at the time of the second program review (-5.9% compared to -1.5%), reflecting spillovers from the protracted war in Ukraine, rising cost of living which depressed domestic demand, weak agricultural activity due to unfavorable weather conditions and an overall tight policy mix. The National Bank of Moldova (NBM) acted resolutely to combat inflationary pressures as early as August 2021, firmly reducing inflation from its peak of 34.6% in October 2022 to 21.9% at the end of March 2023, prompting gradual monetary policy easing. However, credit dynamics are subdued as conditions remain tight, decelerating credit provision in the economy. Fiscal policies kept focusing on cushioning the impact of shocks, while benefiting from higher revenues, including inflows from external support, but also showing budget under-execution. Gross foreign exchange reserves, which have surpassed pre-war levels, provide adequate safeguards against external shocks, especially considering high uncertainties. The banking sector remains resilient retaining adequate levels of capital and sound profitability. However, asset quality has been affected by a slight increase in nonperforming loans due to economic slowdown.

While the contingency plans have been effective in mitigating the impact of energy shocks, energy security risks remain. The authorities' contingency plans have been instrumental in ensuring the diversification of gas supplies, which has brought the country independence from Gazprom. They will continue to leverage regional cooperation to enhance diversification, including by addressing the infrastructure bottlenecks. However, high risks are stemming from the electricity supply, which is largely provided by MGRES, the historical electricity producer located in the breakaway Transnistria region. The authorities have secured electricity supplies from MGRES, but these are subject to monthly negotiated contracts, which increase the risks of future supplies. If the supply risks materialize, the authorities will resort to spot market acquisitions which could involve considerably higher import costs. Under these conditions, tariff adjustments will remain a key instrument of the policy response, complemented by targeted support to the vulnerable, subject to budget availability.

Notwithstanding reduced energy security risks, overall risks to the outlook and uncertainties remain high and pose challenges to the long-term recovery. The economy is expected to recover moderately by 2% in 2023, supported by monetary policy easing, additional fiscal impulses through wage and pension increases, better expected agriculture output and faster recovery of trading partners. The long-term recovery is clouded by the lingering effects of the multiple crises, including further escalation of the war or destabilization in the region. This may bring new waves of refugees from Ukraine, while Moldova already hosts more refugees per capita than its European peers. Renewed disruptions to energy supplies may pose other major risks to the outlook, for which the authorities are further strengthening their contingency planning. At the same time, steadfast implementation of reforms under Moldova's EU accession agenda and a strong rebound in trading partners' economic activity represent important upside risks.

Despite the challenging environment created by the overlapping crises, program performance remains strong, and the ECF-EFF program will continue to decisively anchor the government's reform agenda.

The program implementation remains steadfast, thereby acting as a valuable catalyst for external support. All end-December indicative targets and quantitative performance criteria (PCs) were met, and inflation fell within the consultation band. Both end-December structural benchmarks (SBs) on anti-corruption and rule of law were implemented as prior actions for this review, while the end-March SB on institutionalizing tax expenditure reviews as part of the annual state budget was met. The authorities requested a waiver for non-observance of the continuous PC on the non-accumulation of external payment arrears. The breach is of a temporary nature and corrective measures have been taken by depositing the overdue payment in an escrow account to secure the payment to the creditor. Thanks to significant financing support from the development partners, the program is fully financed for the next 12 months and there are firm financing assurances over the remainder of the program.

The authorities are stepping up efforts to improve their climate-related policies, which can be supported by a RSF arrangement. Cognizant of the adverse impacts of disruptive climate change on key economic areas, the authorities are developing an ambitious set of policy reforms to address the related challenges, including weak adaptation capacity, and to ensure sustainable long-term economic development. Towards these ends, and as reflected in the MEFP, the authorities expressed their interest in a RSF arrangement, which is expected to be discussed in detail during the next program review. Moreover, they believe that the RSF support will not only help catalyze more resources from official and private partners to support the green agenda but will also contribute to consolidating the public debt dynamics.

The policy response going forward will focus on strengthening the near-term resilience and supporting the medium-term economic growth.

Fiscal policies will aim at balancing the need to mitigate the impact of current shocks with the objective of supporting potential growth. The 2023 budget was rightly designed to safeguard social protection and mitigate the erosion of purchasing power stemming from the spillovers of Russia's war in Ukraine and energy headwinds. As the pressures from these shocks subside, the authorities plan to increase spending to support the recovery. To this end, they are preparing a supplementary budget broadly aimed at supporting infrastructure spending and enhancing the capacity in the civil service. This realignment will be carried out within the agreed program fiscal deficit target (6% of GDP). Concurrently, the contingency buffers built up to maintain energy security through the Energy Vulnerability Reduction Fund (EVRF) will be maintained.

The medium-term budgetary framework will target a gradual reduction of fiscal deficit (4.6% to 3.4% of GDP in 2024-2026), while ensuring support for development spending and debt sustainability. To achieve this goal, the authorities will advance revenue mobilization efforts, supported by the ongoing tax and customs administration reforms, but also by strengthening tax compliance through leveraging the existing AML/CFT tools. On the expenditure side, the pro-growth development spending, including green projects, will be gradually increased, off-set by the phasing out of the crisis-related spending. To enhance the execution and quality of public investment, the authorities will strengthen their PIM framework and undertake the C-PIMA diagnostic which will be critical for improving climate resilient infrastructure.

The authorities reiterate the importance of enhancing budget quality and fiscal transparency. This will be ensured by further institutionalizing spending reviews, addressing underspending, implementing the recently approved PFM strategy for 2023-30, and strengthening debt and cash management. Containing fiscal risks will remain a priority for the authorities. This will also be supported by the continuation of the SOE sector reforms, including bolstering SOE corporate governance, which will be followed by the completion of a triage of SOEs scheduled for the end of 2023, in line with the approved state-ownership strategy.

Monetary policy will be adjusted in line with the central bank's inflation targeting framework. While inflation is high, it has been decelerating as the NBM reacted proactively to contain second-round effects and anchor expectations. Guided by a forward-looking and data driven monetary policy, the NBM continued to loosen its monetary policy by further cutting the interest rate to 14% in March 2023 from 21.5% in August 2022. Additional monetary easing will be implemented in light of the declining trends in headline and core inflation. Nevertheless, the NBM will remain vigilant and ready to adjust the pace of monetary policy normalization if high inflation persists.

Financial sector policies will aim at enhancing the resilience of the sector. Given the highly uncertain environment, the authorities remain committed to strengthening their financial crisis management in line with the FSSR recommendations. Another immediate focus is to ensure a smooth transfer of regulatory and supervisory responsibilities for the oversight of non-bank credit organizations, savings and lending associations, credit history bureaus, insurance companies, and insurance intermediaries from the National Commission for Financial Markets (NCFM) to the NBM effective July 1, 2023. The process will include closing the remaining operational and legislative gaps. By that time, the authorities also plan to adopt the legislation that will entrust the NCFM with the financial consumer protection mandate. Furthermore, the NBM will implement its strategic plan to ensure that climate risks are addressed by the financial system, thereby protecting its financial stability.

Building strong structural fundamentals will be key to reinforce long-term growth. The authorities acknowledge that the implementation of anti-corruption measures is crucial for advancing the policy reform agenda and achieving the program's objectives. They are proceeding with the integrity "pre-vetting" of candidates for judicial prosecutorial bodies, introduced in 2022, in line with best practices. These efforts will contribute to improving the appointment and evaluation of judges and prosecutors. Following the recent approval of legislation establishing the mandate of two anti-corruption bodies to fight high-level corruption, the next step by authorities in the fight against corruption will be to strengthen their budgetary independence. These reforms well complement the authorities' reform agenda under the EU accession path.

Concluding remarks

Given the strong program performance despite the challenging environment and the complex reform agenda, the authorities request the completion of the third review under the ECF/EFF program. They also request a waiver of non-observance of the continuous PC on the non-accumulation of arrears on external debt, taking into account the corrective measures put in place.

The authorities expressed their interest in an RSF arrangement to support their ambitious reform agenda to address the challenges posed by climate change.

The authorities remain committed to the continued implementation of the ECF-EFF program. The program has been instrumental in anchoring their efforts to respond to the worst energy crisis in Moldova's history and to cope with the powerful external shocks stemming from Russia's war in Ukraine, which unfolded on Moldova's borders. The program will be instrumental going forward in the face of high risks, including to the country's security, and heightened uncertainties. It will complement the authorities' reform path under Moldova's EU candidacy. The continued support from the IMF and developing partners remains critical for Moldova's long-term sustainable development.