GUVERNUL REPUBLICII MOLDOVA | **GOVERNMENT OF THE REPUBLIC OF MOLDOVA**

Nr. 01-79-12175 Chişinău, December 15, 2022

Letter of Intent

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

Dear Ms. Georgieva:

1. The attached provide updates to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) of September 7, 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. The near-term economic outlook is highly uncertain due to the adverse spillovers of Russia's war in Ukraine and a turbulent external environment. Energy security risks have come to the fore as efforts to secure gas and electricity from alternative sources exert pressure on the budget. Higher energy and food prices continue to erode the purchasing power of households and amplify costs for businesses. While inflation is expected to start decelerating in the coming months, prolonged or additional energy shocks could aggravate the economic outlook, widening current account and fiscal deficits. The ECF-EFF program continues to play an essential role in catalyzing significant financial support to mitigate the challenges posed by rising external and domestic headwinds.

3. Our policies have remained broadly on track despite a challenging landscape. We met all end-September 2022 quantitative and indicative targets. We met the structural benchmark to amend legislation and regulations to expand the coverage of the existing public investment management framework ahead of schedule. However, we missed the structural benchmark on adopting the state-ownership strategy for all state-owned enterprises (SOEs) which is expected to be completed in December. We also amended relevant legislation to strengthen the institutional autonomy of the National Bank of Moldova as a prior action. We are proposing six new benchmarks (outlined in the MEFP) reflecting our continued commitment to the program's overarching objectives. We also propose to modify the TMU definition of the continuous ceiling on accumulation of external payments arrears for external payment obligations for which the

creditor has extended a payment deferral or payments are made into an escrow account due to the risks of blocking of the repayment by corresponding banks. While end-December performance criteria (PC) appear on track to be met, final data are not yet available to assess the performance. We therefore request a waiver of applicability for all end-December PCs for this second review under the EFF.

4. Given the positive performance under the program and the policies in the enclosed MEFP, we request the completion of this review and the release of the combined purchase/disbursement of SDR20.65 million, which will bring total drawings under the arrangement to SDR206.6 million. We believe that the solid policies and measures outlined in this MEFP are appropriate to achieve the program objectives for sustaining the economic recovery and pursue structural and development reforms for strong and inclusive growth. We stand ready to take additional measures, as appropriate, to achieve these objectives. We will consult with IMF staff before adopting such measures, or in advance of revisions to the policies contained in this MEFP, or before adopting new measures that would deviate from program goals, consistent with IMF policies on such consultations. In line with our commitment to transparency, we authorize the IMF to publish this letter, the MEFP and its attachments, and the accompanying staff report.

Sincerely yours,

N. Gavrilița

Natalia Gavrilița
Prime Minister

Octavian Armașu
Governor National Bank of Moldova

D. Bud

Dumitru Budianschi
Minister of Finance

Dumitru Alaiba
Minister of Economy

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

Appendix I. Letter of Intent

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Attachment I. Memorandum of Economic and Financial Policies

I. Macroeconomic Developments and Outlook

1. Russia's war in Ukraine continues to cloud Moldova's economic and social landscape. Exceptional uncertainty continues to complicate policy formulation and implementation, while high energy and food prices continue to squeeze the purchasing power of households and increase production costs for businesses. Russia's continued presence in the breakaway region of Transnistria fuels concerns about Moldova being drawn into the conflict. Meanwhile, frequent anti-government protests compromise the fragile social fabric and political stability.

2. Energy security risks are materializing, threatening social cohesion while exerting pressure on budget expenditure. Gazprom has significantly curtailed its supply of natural gas to Moldova, keeping it substantially below the volumes needed and delivered in October and November 2021 (stipulated in its contract with Moldovagaz). In line with our contingency planning, we are procuring gas from alternative sources for current consumption, and accumulating reserves in storage to secure gas availability through the coldest winter months. These purchases are largely at market prices and have significant budget implications. We also signed a contract for transporting natural gas through the networks of Bulgartransgaz from Bulgaria. The spillover effects of gas shortages on electricity supply are significant: the power plant in Transnistria (MGRES), which provides most of Moldova's electricity needs, depends on natural gas from Russia. As a result of the shortage of gas supply, imports of electricity from Transnistria came to a halt in November. Further, Ukraine stopped electricity exports following the escalation of attacks by Russia on its energy infrastructure. We have addressed the near-term needs by securing supplies from Romania, albeit at significantly higher prices.

- *Growth*. The economy stagnated in 2022H1 as accelerating inflation depressed household incomes through falling wages in real terms. Economic activity was primarily supported by higher net exports and, to a lesser extent, government consumption, while investment contributed negatively to growth. Real GDP is projected to decline by 1.5 percent in 2022, with significant downside risks.

- *Inflation*. Annual CPI inflation remained high at 34.6 percent (y/y) in October 2022, due to still-elevated food and energy prices. However, it was slightly below its forecast on account of stronger-than-expected exchange rate and slower pace of regulated price adjustments. Inflation is expected to start decelerating in the coming months.

- *Fiscal position.* The general government deficit narrowed to 0.7 percent of GDP in October, reflecting strong revenue performance and under-execution of capital and current expenditures. Revenue performance remained resilient, underpinned by the corporate income tax and the inflationary effect on the value-added tax on imports. However, excise taxes remained low, reflecting the impact of the war on trade flows. On expenditure, targeted transfers for households and wages will increase through the remainder of the year, reflecting the temporary support measures approved in the supplementary budget. The fiscal deficit is projected to reach about 4.2 percent in 2022.

- *External*. The current account deficit reached about US$1 billion (15 percent of GDP) in 2022H1, driven by a sizeable trade deficit. Gross foreign exchange reserves recovered above pre-war levels to about US$4.3 billion as of end-October 2022, boosted by seasonal export and remittances receipts, increases in reserve requirements on foreign currency deposits, and disbursements of external financial support. At this level, the FX reserves provide adequate cushions during winter against volatility in energy supplies associated with the war in Ukraine.

- *Monetary and financial policies.* After concerted efforts to exercise restrictive monetary policy since July 2021, the National Bank of Moldova (NBM) cut the policy rate by 150 basis points to 20 percent in December. As the multiple-crises unfolded, the NBM increased the systemic buffer rate, restricted dividend payouts, introduced borrower-based prudential measures and tighter due-diligence for credit to help contain excessive risk-taking.

3. Risks to the outlook persist and remain exceptionally high. Energy security remains at risk from further disruptions in natural gas or electricity deliveries, given the dependence on supplies from Russia, Ukraine, and the breakaway region of Transnistria. The duration of recent shocks is unknown, and the outlook for the energy sector is highly uncertain. Prolonged or additional energy shocks could aggravate the economic outlook, resulting in the balance of payment and fiscal pressures, lower consumption, and output losses. Policy trade-offs may become even more challenging if inflation pressures persist, confidence deteriorates, or additional external shocks occur. An escalation of the war would lead to other refugee inflows, putting additional pressures on the budget while financing conditions are tightening. Social unrest over the cost-of-living crisis and political discontent over policy decisions may also upset Moldova's fragile socio-political equilibrium.

4. Our program implementation remains steadfast despite unprecedented challenges. We met all the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-September 2022. Of the two structural benchmarks (SBs) for end-September 2022, we (i) timeously amended legislation and regulations to expand the coverage of the existing public investment management framework; and (ii) completed the state-ownership strategy for all state-owned enterprises (SOEs) with a delay in December. To allow in-depth consultations and strong ownership, we will meet the end-October SB on legislative amendments for the institutional autonomy of the NBM as a prior action for the IMF Executive Board approval of the second review under the program.

II. Policy Framework

5. The multi-layered crises require strong policy coordination, as well as continued progress on governance reforms and address developmental needs. On the fiscal front, complementary efforts to strengthen revenue and spending outcomes while advancing energy and SOE reforms would help preserve buffers. Implementing the inflation targeting framework resolutely, leveraging on an independent central bank, would help ensure price stability. In the financial sector, improved regulatory and macroprudential toolkits should contain financial stability risks. Once the crisis dissipates, we will redirect our efforts to a set of macro-critical policies and ambitious structural reforms to bolster the rule of law, reduce corruption, strengthen fiscal and financial governance, facilitate financing, and create a solid foundation for strong and inclusive growth.

A. Fiscal Policy

6. Our near-term fiscal policy is to mitigate the economic and social fallout of the war and the energy shock. We will approve the 2023 budget in line with the macro-framework agreed with the IMF staff to bring the general government deficit to 6 percent of GDP **(prior action)**. We will prioritize measures to respond to the cost-of-living crisis, ensure energy security, address capacity constraints in the civil service, and secure external support to meet our financing needs, while preserving fiscal sustainability. We are committed to: (i) indexing pensions in line with growth in social security contributions (1.2 percent of GDP); (ii) increasing allocations for existing social assistance programs, including the Ajutorul Social program and heating assistance (APRA) (0.8 percent of GDP); (iii) gradually increasing public sector wages to mitigate the purchasing power erosion and to attract and retain qualified staff (1.2 percent of GDP); and (iv) allocating emergency contingency funds for energy and implementing the targeted energy poverty reduction scheme (1.6 percent of GDP). On the revenue side, we plan to widen the VAT base by removing exemptions on specific imported items, increase excises for tobacco and alcohol (in line with discussions in the EU accession process), and support SMMEs by approving a zero-rate on undistributed income (subject to a sunset clause) to support their liquidity positions. Risks around the baseline are high, particularly with increasing security threats and a worsening energy outlook. Should further risks materialize, we will seek additional financial support from our partners in the form of grants and concessional loans.

7. 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 development-focused spending—prioritizing capital spending on roads, energy diversification, and water, investments in health and education, as well as supporting SME growth and job creation—supported by enhanced spending efficiency, domestic market development, and strengthen fiscal governance and transparency.

Reforms to Strengthen Revenue Mobilization

8. Tax policy and tax and customs administration reforms remain a key priority. In consultation with IMF staff, we plan to:

- **Identify tax relief provisions for phasing out.** We will adjust 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 duties, and real estate tax (**new 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 undertook an assessment of the system of tax administration using the Tax Administration Diagnostic Assessment Tool (TADAT). Although State Tax Service (STS) has made good progress in enhancing services to taxpayers, there is scope to enhance compliance risk management, improve the taxpayer register, and upgrade the IT system. We will continue to improve the organizational structure and capacity of the 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 and other development partners; (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 (**new 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 (**new 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, 2023. 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 (i) to reduce the legal threshold for determining smuggling as a criminal offence and raised administrative fines for such violations, and (ii) to 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 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 and strengthen the cooperation between the tax authority, financial intelligence unit, and law enforcement bodies.

Reforms to Improve Budget Quality and Fiscal Transparency

9. 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 where needed, as well as monitoring the implementation of recommendations of spending reviews related to improved quality of education, and effectiveness and equity of public spending for children and other vulnerable groups.

- **We will work towards strengthening the credibility of our Medium-Term Budget Framework (MTBF).** In line with the objective of improving public financial management systems, we will continue efforts to preserve multiyear fiscal discipline. Our budgets are currently subject to significant under-execution of planned expenditures and may not fully take into account the short- and medium-term fiscal impact of new policies. With the IMF technical assistance, we will work towards strengthening the MTBF preparation and implementation process. We aim to establish binding or indicative multiyear expenditure limits. A stronger MTBF will ensure that citizens are aware of the full multiyear fiscal impact of new policies, their effect on long-term fiscal sustainability, and will serve as an early warning system to take corrective action when needed.

- **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 now publish the beneficial ownership information of all entities contracting with public authorities on the website of the Public Procurement Agency. We intend to strengthen our e-procurement system to cover all public procurements in 2023, with a view to support transparent public procurement processes and delivering cost-efficient services. 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 under the Prima Casa housing support program. 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) 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. We will amend the relevant secondary legislation to facilitate the implementation of the law. 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. Towards this objective, we will approve and implement an action plan on the development of the government securities market.

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

10. 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.** Our PIM framework is broadly in line with good international practices, but inconsistent application and narrow coverage significantly limit its effectiveness. 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, 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) 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 (**end-September 2022 structural benchmark)**. To facilitate the implementation, enhance transparency, and further strengthen the public investment management 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.

- **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 recommendation of recent IMF technical assistance, we plan to improve reporting of public funds going towards employee expenses to include public institutions, continue to consolidate 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 Public Procurement Agency. We have expanded the coverage of a comprehensive IT-based staff registry to all central government employees.

- **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. In April 2023, we plan to raise 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. We intend to make the pension system more equitable by introducing changes to the Silver Fund program, which will increase benefits to a small group of older pensioners, taking into account age and seniority at work.

- **Enhance social assistance programs.** In consultation with the World Bank, we initiated the reform of the Ajutorul Social program which strives to improve the targeting of social assistance programs, by shifting resources from categorical (including ad-hoc categorical payments) to means-tested payments, and by increasing the coefficients given to the most vulnerable members of recipient families, and by making 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 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.

- **Launch a well-targeted energy poverty reduction program.** Towards this objective, we launched the Energy Vulnerability Reduction Fund (EVRF) to protect the vulnerable from rising energy costs and support the transition of households towards more energy-efficient appliances. As of November 24, 5200,000 out of 1,300,000 households (about 40 percent) have registered for this subsidy on the online registration platform. The EVRF scheme targets about 80 percent of the Moldovan population progressively reducing the extent of the energy subsidy across 5 categories of households (including a non-eligible category) based on welfare indicators, income proxies, family characteristics, type of heating system, and consumption levels. Under the current energy prices, the cost of the subsidy is estimated to be about MDL 1 billion a month during the 2022-23 heating season. The subsidy will be implemented through the EVRF (Law approved by the Parliament on July 28, 2022).

- **Scale up investment in disaster and climate risk mitigation and response.** 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.

- **Strengthen gender equality efforts**. Gender inequalities continue to persist in Moldova with the gender pay gap higher at 14.4 percent compared to 14.1 percent for the EU in 2019. 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. According to the Public Expenditure and Financial Accountability (PEFA) results, Moldova lacks a comprehensive Gender Responsive Budgeting (GRB) framework as line ministries do not systematically track information on gender-related spending. While some gender sensitive indicators are produced and a requirement for gender sensitive information has been issued for the medium-term budget framework, the overall system lacks a tracking mechanism. We will work with the U.N. 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

11. The NBM stands ready to adjust its monetary policy stance consistent with its inflation targeting (IT) framework. Our monetary policy decisions continue to depend on the inflation outlook.

- ***Policy rates.*** Forward-looking and data-dependent monetary policy has helped to contain second-round effects, and inflation is expected to peak in October 2022, creating scope for cautious monetary easing. Policy actions in 2022 comprised three 300 basis point hikes in May, June, and August, after which the NBM cut the base rate in December by 150 basis points to 20 percent. Further, the NBM adjusted domestic and FX-denominated reserve requirements by six percentage points to 40 percent and 45 percent, respectively, effective August and September 2022, after which the domestic reserve requirement was reduced to 37 percent in December. Given the exceptional uncertainty, we remain agile to adjust the pace of monetary policy normalization if high inflation proves to be more persistent.

- ***Foreign exchange interventions.*** The MDL depreciated by about 8 percent since the beginning of the war, reflecting a worsening external environment and weaker confidence. However, since the first review, considerable external financial support and improved market conditions have enabled gross foreign exchange reserves to be rebuilt, reversing the foreign exchange losses. We recognize the scope and duration of the war-induced confidence pressures and energy and food inflation remain uncertain. We face a complex policy context involving ensuring that banks have sufficient liquidity while preserving buffers to forestall emerging shocks in a complex environment. We, therefore, stand 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 our 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

12. The financial sector has shown great resilience since the onset of the war but risks remain high against lower liquidity buffers. We deployed a full range of tools in the acute phase of the liquidity crisis, including MDL standing facilities, FX swaps, and interventions, while ensuring a steady supply of FX banknotes. With improved market confidence, total deposits have recovered while corporate deposit dollarization reverted to pre-war levels. Banks remain adequately capitalized and retain healthy asset quality, with nonperforming loans stable at 6.5 percent of total loans at end-September. Although the system-wide liquidity coverage ratio (LCR) has declined to 174.4 percent at end-September, from its pre-war level of over 300 percent, in part due to policy changes in reserve requirements. However, all banks' LCRs remain above the prescribed 100 percent. Stress tests indicate that the banking system can withstand a deterioration in liquidity conditions due to negative confidence effects, increased flows of refugees, and exchange rate pressures. We are closely monitoring the liquidity position of each bank and are prepared to undertake other contingency measures to address the buildup of liquidity risk. To conserve the capital position of banks in an environment of heightened uncertainty, we have advised banks against any dividend payouts until the shock is weathered. Profitability continues to be favorable, with ROE and ROA at 18.1 percent and 3.1 percent, respectively at end-September 2022.

13. Our prompt actions have dampened credit growth, but we remain vigilant on the buildup of systemic risk. Following excessive uptake of consumer loans, we raised the systemic buffer rate for banks' exposures to household credit, introduced regulations for responsible lending, by establishing loan-to-value (LTV) threshold of 80 percent and a debt service-to-income (DSTI) threshold of 40 percent, as well as tighter credit worthiness assessments. As a result, the growth rate of new real estate and consumer credit loans slowed down to 63 percent and 50 percent (y/y), respectively in 2022Q3. Preliminary data indicate good progress in banks' compliance with the borrower-based thresholds. At the same time, monetary policy tightening through interest rate hikes has transmitted into higher deposit and lending rates, also contributing to the slowdown of private credit.

14. We remain committed to further strengthening the institutional autonomy and governance of the NBM, in consultation with the IMF. Against a highly uncertain background and soaring inflation, 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 particular, in consultation with IMF staff, we will adopt amendments of relevant legislation to strengthen provisions for (**prior action** for the IMF Executive Board approval of the second review under the program): (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.

15. 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).

16. The NBM continues to take all necessary steps in ensuring proper corporate governance and professional management of banks. While we support 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, ability to exercise supervisory powers over shareholders, investor jurisdiction regulations, and bank governance.

17. 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 DGF in the financing of the resolution measures (**end-June 2023 structural benchmark**). We have also advanced in the comprehensive review of the bank liquidation framework with a view to strengthen liquidation procedures, including introducing a forced liquidation procedure that achieves public policy objectives without hindering the discharge of other functions of the NBM. We are committed to close 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. By March 2023, we will also amend 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.

18. 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.

19. 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 enhancing intra-authority coordination to intensify preparations, including via a comprehensive action plan prescribing steps to clarify the legal framework, advance capacity building, foster business continuity, implement necessary regulatory changes, and manage communication.

- ***Nonbank credit organizations.*** The activation of loan-to-value (LTV) and debt-service-to-income (DSTI) ratios as well as stricter credit worthiness assessment for the NBCO on September 1, 2022, has contributed to a slowdown (y/y) in non-bank credit by 25 and 33 percent in September and October 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 framework, the NCFM will develop all critical secondary legislation. By end-June 2023, the NCFM will adopt secondary legislation on licensing, qualified shareholders, and fit-and-proper and prudential requirements (**new end-June 2023 structural benchmark**). 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 while a special administration for another insurer continues to foster regulatory compliance. We are committed to implement resolution mechanisms for insurers that do not meet prudential requirements to safeguard assets, in accordance with new legislation. Also, in April 2022, we adopted a new law on Motor Third Party Liability Insurance, which becomes effective on April 1, 2023.

20. We plan to strengthen regulatory frameworks for capital markets and financial consumer protection. Towards this objective, we plan to consolidate supervision of capital markets by transferring the relevant supervisory competencies of the Central Securities Depository (CSD) from the NBM to the NCFM. As a first step, we will set up an intra-agency coordination committee to prescribe the process for supervision, ownership, and governance of the CSD under the new regulatory framework for capital markets. Also, in order to enhance our financial consumer protection, we are exploring the option to entrust NCFM with the financial consumer protection mandate, including well-defined consumer protection responsibilities for all financial services.

21. 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. As recommended by the FSSR, we are updating the regulatory framework for online identity verification (e-KYC procedure) by 2023Q4 which will improve customer services and help unserved and underserved groups access and use regulated financial services. This will also increase the reach and effectiveness of AML/CFT regimes. The NBM's newly created 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 SMEs. We are committed to developing an inter-agency committee with a mandate to develop, implement, and monitor an NFIS.

22. We are committed to protecting our financial sector from illicit financial flows. Towards this end, we will continue to strengthen our Anti-Money Laundering and Countering the Financing of Terrorism (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 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

23. 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.

- To enhance oversight capacity and fiscal risk monitoring, since February 2022, all SOEs at the central government level submit quarterly financial statements to the Public Property Agency, which are regularly shared with the Ministry of Finance. We are undertaking a comprehensive assessment of the financial position of all SOEs operating at the central government level, with a view to identify corrupt practices and legacy contracts that contribute to SOEs fiscal costs.

- Albeit with a delay, we adopted in December 2022 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 (**end-September 2022 structural benchmark**). 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 (**new end-December 2023 structural benchmark**). We also intend to propose a privatization strategy for small and large privatizations and set economic benchmarks to identify the most opportune conditions for launching de-nationalization efforts.

- In 2023, with support of the World Bank, we plan to adopt regulations on the selective process of supervisory board members and auditing of SOEs.

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

- ***Natural gas.***

  - The gas price formula agreed with Gazprom in 2021 led to favorable and falling prices in October and November 2022 (US$1028 and US$821 per 1000 m^3, respectively). The contract terms notwithstanding, Gazprom has restricted the volume of gas delivered to Moldova to 5.7 million m^3 per day, which is approximately 70 percent of the contracted volume for October, and half of the agreed volume for November (8.1 and 11.1 million m^3 per day, respectively).

  - We secured a EUR 300 million EBRD credit line for gas storage and emergency purchases which, together with budgetary resources, is being used to build sufficient storage for approximately three months of winter consumption, assuming measures to lower gas consumption are effective. We have also updated our broader contingency plan and policy options to be prepared for a scenario in which energy prices continue to soar and/or there are significant disruptions in supply. Natural gas supplies from Azerbaijan and Romania remain viable alternatives. 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 will ensure 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. Going forward, in agreement with the Energy Community Secretariat, ANRE will issue the final certification for the unbundled gas Transmission System Operator (TSO), by August 2023.

- ***Electricity.***

  - The war continues to create supply and price uncertainties. On October 11, exports of electricity from Ukraine were halted following Russia's targeted attacks on energy infrastructure. On October 24, MGRES reduced substantially the supply of electricity, creating a need for procurement from spot markets abroad. 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 would likely come at a higher cost while cross-border capacity remains limited at 500 MW (by ENTSO-E) for both banks of the Dniester River, resulting in a capacity shortfall. We are urging economic agents and households to save energy during peak hours to help balance the demands of the grid.

  - We continue to adjust electricity tariffs to reflect the higher costs, including in March, June, October, and November. 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.

25. We have introduced a new well-targeted social assistance program, and will continue to leverage the existing programs, to protect the most vulnerable. We plan to compensate vulnerable energy consumers towards paying their energy bills during the heating season by implementing a new and more targeted framework. We have classified households into vulnerability categories according to the share of energy costs in income, income, the type of heating system, and the household size. We will also focus on improvements in energy efficiency, including as part of the new targeted support scheme.

E. Rule of Law and Anti-Corruption

26. 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, which expires at the end of 2022, to inform the preparation of a new strategy.

27. 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 underway. 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.

28. 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 Superior Council of Prosecutors (SCP) as the prosecutorial governance body. To this end, the eventual removal of ex officio members of the SCP is envisioned.

29. 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 are amending the Criminal Procedure Code 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 (**end-December 2022 structural benchmark**).

30. 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 Anti-Corruption Prosecution Office (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 structural benchmark**). 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 will amend 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 **(end-December 2022 structural benchmark)**. 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 amend the Order of the Ministry of Finance no. 208/2015 on Budget Classification to include APO as a separate line item (**new end-June 2023 structural benchmark**).

31. 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 MPs, 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 630 million Moldovan lei 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. We also aim to implement a system of non-conviction-based confiscation starting in 2023.

32. **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

33. **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; (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

34. **The heightened uncertainty and pressing financing needs necessitate frequent program monitoring.** Two prior actions and six new structural benchmarks for 2023 have been proposed. The indicative targets on the ceiling for general government wage bill and the floors on targeted social spending and developmental spending are proposed to be modified for end-March 2023, end-June 2023, end-September 2023, and end-December 2023. The quantitative performance criteria, inflation consultation clause, and indicative targets are set out in Table 1, as specified in the Technical Memorandum of Understanding (TMU) attached to our Letter of Intent dated December 15, 2022. The prior actions, along with the structural benchmarks, are set out in Table 2.

Table 1. Moldova: Quantitative Performance Targets, March 2022 – December 2023

	2022								2023							
	March 1/		June		September			December	March 1/		June		September 1/		December	
	Prog. Target CR 22/140	Actual	Prog. Target CR 22/140	Actual	Prog. Target CR 22/320	Actual	**Status**	Prog. Target CR 22/320	Prog. Target CR 22/320	Revised Prog. Target	Prog. Target CR 22/320	Revised Prog. Target	Prog. Target CR 22/320	Revised Prog. Target	Prog. Target CR 22/320	Revised Prog. Target
1. Quantitative performance criteria 1/																
Ceiling on the cash deficit of the general government	1,705	1,206	9,845	3,427	14,521	1,917	**Met**	17,219	5,130	5,130	7,250	7,250	10,890	10,890	18,527	18,527
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) 2/	3,447	3,260	2,761	3,539	2,515	4,347	**Met**	2,692	2,806	2,806	2,946	2,946	3,046	3,046	3,146	3,146
2. Continuous performance criteria																
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	0	0	0	**Met**	0	0	0	0	0	0	0	0	0
3. Indicative targets																
Ceiling on the general government wage bill	4,900	4,778	11,102	10,726	16,505	15,259	**Met**	21,783	5,485	5,640	10,990	12,550	17,130	18,630	24,567	25,618
Floor on targeted social spending undertaken by the general government 3/	835	620	905	951	1,055	1,085	**Met**	2,065	1,410	3,607	2,020	4,717	2,404	4,882	3,038	5,989
Floor on developmental spending undertaken by the general government 4/	5,976	7,192	12,617	16,141	19,390	23,942	**Met**	28,654	7,911	7,530	17,755	14,790	22,838	22,980	31,520	34,940
4. Inflation Consultation Bands (in percent)																
Outer Band (upper limit)	7.0		32.5		37.0			33.0	25.0	25.0	16.0	16.0	11.5	11.5	11.0	11.0
Inner Band (upper limit)	6.5		31.0		35.5			31.5	23.5	23.5	14.5	14.5	10.0	10.0	9.5	9.5
Center point	5.0	22.2	29.5	31.8	34.0	34.0	**Met**	30.0	22.0	22.0	13.0	13.0	8.5	8.5	8.0	8.0
Inner Band (lower limit)	3.5		28.0		32.5			28.5	20.5	20.5	11.5	11.5	7.0	7.0	6.5	6.5
Outer Band (lower limit)	3.0		26.5		31.0			27.0	19.0	19.0	10.0	10.0	5.5	5.5	5.0	5.0

1/ Indicative targets for March 2022, March 2023 and September 2023.
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.

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

	Measure	Rationale	Timeframe	Status
Prior Actions				
1	Parliament to adopt the 2023 budget in line with the macro-framework agreed with IMF staff, to bring the 2023 general government deficit to 6.0 percent of GDP, subject to financing availability.	Support macroeconomic recovery and mitigate impact of rising food and energy prices		
2	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		
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	
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 prohibitthe reduction of a term of imprisonment in corruption cases below the statutory minimum.	Strengthen enforcement of the anti-corruption legal framework	end-December 2022	
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, amend the Order of the Ministry of Finance no. 208/2015 on Budget Classification to include APO as a separate line item.	Strengthen anti-corruption institutions	end-June 2023	Proposed 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	Proposed structural benchmark.
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	Proposed structural benchmark.
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	Proposed structural benchmark.
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. Set as prior action #2.
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 licensing, qualified shareholders, and fit-and-proper and prudential requirements.	Facilitate implementation of the Solvency II insurance framework	end-June 2023	Proposed structural benchmark.
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	Proposed structural benchmark.

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. External payment obligations for which the creditor has extended a payment deferral or payments are made into an escrow account due to the risks of blocking of the repayment by corresponding banks, do not constitute arrears for the purposes of this performance criterion.

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.[5]

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.

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

[5] 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.

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			
	June	September	December	March	June	September	December
Outer Band (upper limit)	32.5	37.0	33.0	25.0	16.0	11.5	11.0
Inner Band (upper limit)	31.0	35.5	31.5	23.5	14.5	10.0	9.5
Center point	**29.5**	**34.0**	**30.0**	**22.0**	**13.0**	**8.5**	**8.0**
Inner Band (lower limit)	28.0	32.5	28.5	20.5	11.5	7.0	6.5
Outer Band (lower limit)	26.5	31.0	27.0	19.0	10.0	5.5	5.0

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			
	June	September	December	March [2/]	June	September [2/]	December
	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)	185	278	476	147	294	440	587
Programmed external financing flows to adjust the ceiling on the cash deficit (MDL million)	3,663	5,494	8,899	3,155	6,310	9,466	12,621

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).