IMF Country Report No. 20/129

REPUBLIC OF MOLDOVA

April 2020

STAFF REPORT FOR REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOLDOVA

In the context of the Staff Report for the 2020 Request for Disbursement Under the Rapid Credit Facility and Purchase Under the Rapid Financing Instrument, 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 17, 2020, following discussions that ended on April 2, 2020, with the officials of the Republic of Moldova on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 10, 2020.
- A **Statement by the Executive Director** for the Republic of Moldova.

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

Letter of Intent sent to the IMF by the authorities of the Republic of Moldova*
*Also included in Staff Report

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

IMF Executive Board Approves US$235 Million in Emergency Assistance to Moldova to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- COVID-19 outbreak has caused significant disruptions to Moldova's economy.
- The approval of Moldova's request will make available US$235 million to the authorities to meet the urgent balance of payment needs stemming from the COVID-19 pandemic, help catalyze developmental partner support, and address imminent health system needs.
- The authorities are implementing policies aimed at mitigating the economic and social impact of the shock and maintaining macroeconomic and financial stability.

WASHINGTON, DC – April 17, 2020. The Executive Board of the International Monetary Fund (IMF) approved a disbursement under the Rapid Credit Facility (RCF) equivalent to SDR 57.5 million (about US$78.4 million, 33.3 percent of quota) and a purchase under the Rapid Financing Instrument (RFI) equivalent to SDR 115 million (about US$156.7 million, 66.7 percent of quota) to meet Moldova's urgent balance of payment needs stemming from the COVID-19 pandemic.

Moldova's macroeconomic outlook has deteriorated sharply, giving rise to an urgent balance of payments gap estimated at about US$830 million. The economic impact of the COVID-19 pandemic remains highly uncertain with risks heavily tilted to the downside. The IMF support will help finance the health and macroeconomic stabilization measures, catalyze donor support, and shore up confidence in Moldova.

The authorities' policies aim at mitigating the economic and social impact of the crisis and supporting the recovery, while maintaining macroeconomic and financial stability. They imposed temporary economic activity restrictions to arrest coronavirus contagion, ramped-up spending on urgent healthcare needs, and introduced business support and social protection measures. The National Bank of Moldova eased liquidity and monetary conditions and is rightly focusing on financial system resilience.

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

"Moldova's economic outlook has deteriorated sharply due to the COVID-19 pandemic. Real GDP is expected to fall and public finances are under significant pressure from declining tax revenues and emergency health and social spending. These developments and negative shocks to confidence, lower remittances inflows, and spillovers from global financial channels have created urgent balance of payments needs. The full impact of the crisis remains highly uncertain.

"The authorities responded quickly and comprehensively, including a national state of emergency, a travel ban, and a range of fiscal and prudential measures. The National Bank of Moldova has been ensuring orderly exchange rate adjustment and liquidity provision. These measures should help contain the spread of the virus, support the health and social systems, and protect employment and viable businesses, while preserving macroeconomic and financial stability.

“While downside risks have intensified, public debt remains sustainable with low risk of distress. Beyond the immediate response, the authorities have reinforced their commitment to engage in a governance-focused arrangement with the Fund in the coming months. The IMF stands ready to support Moldova in addressing its immediate and medium-term policy challenges.”

“”

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

April 10, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context: Thanks to recent reforms, Moldova entered the current crisis with strong fiscal, financial, and external buffers. However, the economic outlook has deteriorated sharply due to the COVID-19 pandemic. GDP is expected to fall by 3 percent due to lower external and domestic demand, aggravated by a significant slowdown in remittances. This, together with negative shocks to confidence and spillovers from global financial channels, has created an urgent balance of payments need. Fiscal, exchange rate, and financing pressures—already significant—are likely to worsen in the coming weeks. On March 11, the Executive Board concluded the 2020 Article IV consultation and completed the final review under the 2016 ECF/EFF arrangements.

Policy Response: The authorities' policies aim at mitigating the economic and social impact of the crisis and supporting the recovery, while maintaining macroeconomic and financial stability. They have ramped-up spending to respond to urgent healthcare needs, provided temporary tax relief and subsidized credit schemes to protect employment and businesses, and strengthened social assistance and unemployment programs. The National Bank of Moldova (NBM) is ensuring orderly exchange rate adjustment and preventing liquidity distress. Financial policies continue to focus on prudent restructuring of banks' credit portfolios subject to maintaining loan classification and provisioning standards.

Request for Fund resources: The authorities have requested Fund assistance to mitigate the economic impact of COVID-19. Staff assesses that Moldova meets the eligibility requirements for the blend Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) and supports a purchase and outright disbursement of SDR 172.5 million (100 percent of quota) on account of present and urgent balance of payment needs and the unfeasibility of the UTC program at this time. This access level would cover 40 percent of estimated external financing needs (subject to significant uncertainty), with the remainder to be covered by other donors and policy adjustment. Moldova is a presumed blender based on the income criteria and access under the exogenous shock window will blend RCF/RFI resources in the ratio of 1:2. Public debt is below 30 percent of GDP and is sustainable with low risk of debt distress and there is adequate capacity to repay the Fund. The authorities remain committed to negotiating a fully-fledged three-year program later this year, in line with their pre-pandemic strategy.

Approved By
Philip Gerson (EUR) and Maria Gonzalez (SPR)

Discussions were held remotely during March 30-April 2, 2020. The mission discussed with Prime Minister Chicu, Minister of Finance Pușcuța, Governor of the National Bank of Moldova Armaşu, and other senior officials. The mission team comprised Ruben Atoyan (Head), Sílvia Domit, Amgad Hegazy, Volodymyr Tulin (Res. Rep.) (all EUR), Emmanouil Kitsios (FAD), Yevgeniya Korniyenko (SPR), and Peter Lindner (MCM). Mr. Jesper Hanson (OED) joined the discussions. Chasta Piatakovas and Samuel Romero Martinez (all EUR) and staff from the local office in Chişinău assisted the mission.

CONTENTS

RECENT DEVELOPMENTS

1. **Moldova's pre-COVID19 outlook was cautiously positive supported by strong fiscal, financial, and external buffers.** Real GDP growth in 2020 was expected at 3.8 percent. The 2020 budget envisaged a fiscal deficit of about 3.7 percent of GDP, while public debt (at below 30 percent of GDP) was viewed at low risk of debt distress. The external sector assessment indicated a REER overvaluation of up to 10 percent, with the current account deficit projected at 9¾ percent of GDP. Gross international reserves, at 169 percent of the Fund's composite reserve adequacy metric, were assessed as adequate. The banking sector was well capitalized and liquid. The 2020 Article IV consultation was concluded on March 11.

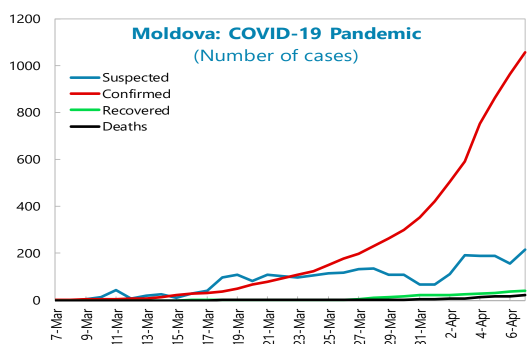
IMPACT OF THE COVID-19 PANDEMIC

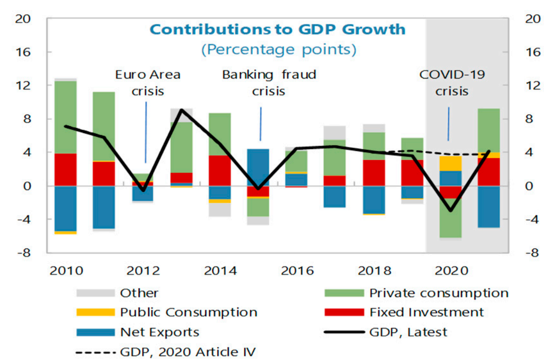
2. **The COVID-19 pandemic and its adverse external spillovers are escalating rapidly, prompting parliament to declare a state of national emergency, with limits on economic and social activity.** The situation is deteriorating with a significant risk of further worsening:

- Amid high uncertainty, staff projects a fall in real GDP of at least 3 percent, nearly 7 percentage points below the pre-pandemic baseline, largely due to sharp external and domestic demand contraction and supply shocks on account of aggressive virus containment measures. While growth is expected to rebound somewhat in 2020H2, as containment measures are gradually lifted, the level of output will recover only slowly toward the pre-virus trajectory.

- External demand pressures are driven by the close economic links to hard-hit EU countries and Russia. Waning exports, subdued remittances, and weaker financial inflows are expected to be only partially offset by import compression. The external current account deficit is forecast to deteriorate to over 10 percent of GDP. Exchange rate pressures are intensifying in both interbank and cash segments, with signs of a pickup in dollarization in bank deposits.

- Public finances are coming under significant pressure. In March, customs revenues fell due to reduced external trade. Tax revenues from domestic activity (e.g., VAT on domestic goods and social security contributions) are anticipated to weaken sharply in the coming months, while higher spending in support of employment, the health system, and social assistance will further pressure the deficit.





3. **As a result, Moldova is facing present and urgent balance of payments needs.** External financing needs implied by the wider current account deficit and weaker financial inflows are estimated to exceed US$830 million (nearly a third of total FX reserves). Maintaining strong reserve coverage is particularly important given Moldova's high vulnerability to shocks (including the impact of droughts on agricultural exports, and its dependence on imported energy from volatile international markets), relatively high private sector external debt, large dollarization risks, lack of market access, and the structurally high dependency on external concessional financing.

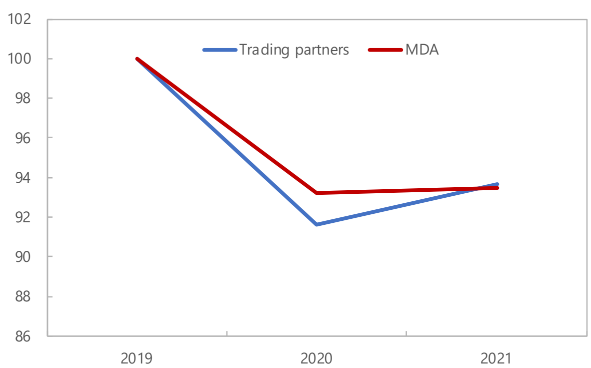
Moldova: External Financing Needs, 2020
(Millions of U.S. dollars, unless otherwise indicated)

	Before COVID-19 2020	After COVID-19 2020	Difference	Difference, in percent of GDP
Current account balance	**-1,204.1**	**-1,160.2**	**43.9**	**0.4**
of which:				
Goods and services trade balance	-3,187.8	-2,765.8	422.0	3.8
Sec. income + compensation of employees (net)	2,313.1	1,774.9	-538.2	-4.8
Capital and financial balance (net) (inflow: "+")	**1,168.4**	**293.3**	**-875.2**	**-7.8**
of which:				
Foreign direct investment (net)	277.2	116.5	-160.8	-1.4
Other investment (net)	941.0	226.3	-714.7	-6.4
of which:				
General government loans (net) 1/	251.5	66.2	-185.3	-1.7
Required Financing	**35.7**	**866.96**	**831.3**	**7.4**
Gross international reserves (increase: "-")	-11.8	382.9	394.7	3.5
Use of Fund credit (net)	-54.2	184.2	238.4	2.1
Exceptional financing (net) 1/	101.6	299.9	198.3	1.8

Sources: Moldovan authorities; and Fund staff estimates and projections.
1/ Official financing from Russia (EUR 200 mln) was re-clasiffied from general government project financing to budget support in the scenario after COVID-19.

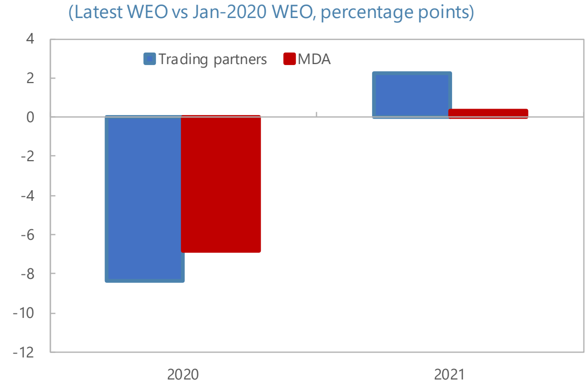
RISKS

Real GDP Level Relative to Pre-Virus Baseline
(Jan 2020 WEO = 100)



Sources: IMF WEO and IMF staff calculations.

GDP Growth Relative to Pre-Virus Baseline
(Latest WEO vs Jan-2020 WEO, percentage points)



Sources: IMF WEO and IMF staff calculations.

4. **Downside risks have intensified.** The baseline assumes some recovery of economic activity in 2020H2, in line with the temporary nature of the domestic state of emergency and with the recovery in major trading partners. But risks are tilted downwards as the impact of the crisis remains highly uncertain, and the recovery could be slower than anticipated. A prolongation of strict containment measures and more severe virus outbreak domestically could necessitate costlier mitigation measures and additional financing. A more protracted global recovery and capital outflows are also prominent risks. The resurfacing of political instability, policy reversals, or reform fatigue could hurt confidence and limit external financing options. On the upside, greater donor support (including possible financing from the EU) and containment policy responsiveness by the

general public could give rise to a faster normalization. Agreement with the Fund on a new arrangement in support of structural reforms would provide further assurance of strong medium-term policies.

ECONOMIC POLICIES

5. The authorities and staff agreed on the need for a temporary relaxation of the fiscal stance to mitigate the economic impact of the COVID-19 pandemic. In April, the government undertook a number of measures and amended the 2020 budget, allowing automatic stabilizers to work while preserving some buffers. Fiscal policy aims at:

Moldova: COVID-19 Policy Response, 2020 1/

(Millions of Moldovan lei, unless otherwise indicated)

	MDL Millions	Percent of GDP
Cyclical revenue effect	-6,905	-3.3
Spending reprioritization 2/	4,307	2.0
Policy measures	-4,222	-2.0
Revenue measures	-220	-0.1
Expenditure measures	-4,002	-1.9
Business support	-786	-0.4
Social protection	-449	-0.2
Health sector	-1,242	-0.6
Emergency funds 3/	-1,524	-0.7
Change in overall balance	-6,820	-3.2

1/ Relative to IMF Country Report No. 20/76 (+ implies improvement in fiscal balance)

2/ Includes discretionary measures and accounts for past execution rates for public infrastructure investment.

3/ Includes support to contingency funds and local governments.

- Accommodating ***higher health system spending*** to purchase personal protective equipment, provide medical and other equipment to regional hospitals, and allocate contingency reserves for a more severe outbreak scenario in line with the World Health Organization's needs estimates;

- Implementing targeted measures to ***mitigate the economic impact on the most affected businesses***, including through temporary labor tax reimbursement subsidies and tax deferral, expedited input VAT refunds, waivers of self-employed patent fee and late payment penalties, and SME on-lending programs via commercial banks;

- Expanding ***social protection schemes*** to support the most vulnerable and unemployed through strengthening existing targeted social assistance and employment programs, backed up by significant increases in state budget allocations;

- Boosting ***contingency reserves and support to local governments*** by increasing allocations for the government's intervention and social funds and compensating local public administrations for the expected deterioration in their tax revenue base; and

- Ensuring ***adequate controls and transparent reporting*** to mitigate risks of misuse of donor financing (LOI ¶13).

6. Staff estimates the general government deficit to widen to 6.9 percent of GDP, over 3 percentage points higher than originally budgeted, largely financed by IFIs and bilateral creditors. Staff projections assume some underexecution of capital expenditure relative to budgeted amounts, in line with experience. To help offset some of the crisis-related costs, the authorities have introduced a tax on mobile phone operators (earmarked for the social support fund) and a repatriation requirement collected from airport duties. The authorities expect to secure an official bilateral budget support loan from Russia (€200 million), emergency financing under the World Bank's Fast-Track Facility (US$57.4 million for health and social assistance needs), and a preferential loan from the Council of Europe Development Bank (€40 million). Residual financing needs will be covered through the use of Fund credit under the RCF/RFI blend (US$236 million) and some domestic borrowing. The authorities plan to introduce further budgetary amendments in September to introduce additional crisis-mitigating and, if needed, spending reprioritization measures. The authorities' medium-term objectives continue to focus on improving revenue mobilization and public investment management, tax expenditure reform, more efficient public spending, and tighter control over recurrent spending.

7. Monetary policy should remain accommodative, barring disorderly FX market pressures. The NBM has cut its policy rate by a cumulative 225 basis points and reduced the MDL reserve requirement from 40.5 to 34 percent. The nominal exchange rate against the dollar depreciated by about 7 percent since pressures emerged in mid-March, while the NBM stepped up its presence in the FX market. The authorities and staff agreed that Moldova's flexible exchange rate regime should continue to serve as the first line of defense against the global pandemic spillovers, with NBM foreign currency reserves to be used judiciously to counter disorderly market pressures and excessive exchange rate volatility. Given ample banking system liquidity buffers, staff noted that further relaxation of MDL reserve requirements may be appropriate but should be carefully calibrated with a view not to exacerbate depreciation pressures.

8. Financial policy should aim to preserve the financial stability, ensure transparent asset quality recognition, and facilitate sound restructuring practices. Temporary loan servicing holidays have been implemented by all banks for loans to individuals, with more targeted exemptions applied to corporations. Loan classification and reporting is being closely tracked at high frequency to facilitate enhanced monitoring of bank soundness. The NBM will continue exercising its supervisory powers towards capital preservation, as demonstrated by its recently issued recommendation to licensed banks to refrain from dividend payouts and share buybacks. The NBM also plans to not extend the already implemented (through end-May) relaxation of provisioning rules and, if needed, to replace those with a temporary suspension of automatic corrective measures subject to credible capital restoration plans. While banks have strong capital buffers to deal with possibly large-scale losses, drawing down capital conservation buffers and seeking pre-emptive voluntary commitments by foreign parent banks could further help buttress stability of the banking system. To accommodate mobility, banking access, and cash circulation constraints, efforts to facilitate electronic payments should be stepped up and temporary relief measures for overdue payments should continue. Carefully calibrated relief measures are also needed for the nonbank financial sector given its sizable footprint on individual and SME credit markets, as well as linkages to the banking system. In this context, the National Commission for Financial Markets recommended nonbank credit organizations voluntarily lower interest rates and institute payment deferrals through end-June.

ACCESS AND CAPACITY TO REPAY

9. The authorities have requested an outright purchase under the exogenous shock window in an amount of SDR172.5 million (100 percent of quota). Moldova faces an urgent BOP need, which, if not addressed, would result in immediate and severe economic disruption. It is not currently feasible to implement a UCT-quality Fund-supported program due to the high degree of uncertainty regarding the duration and scale of the COVID-19 impact and the practical difficulties of holding comprehensive policy discussions with the authorities. It is expected that the full amount will be made available to support the authorities' budget and their emergency response policies. As Moldova is a presumed blender based on the income criteria, access under the exogenous shock window will blend RCF-RFI resources in the ratio of 1:2 (33.3 percent of quota (SDR 57.5 million) and 66.7 percent of quota (SDR 115 million) from PRGT and GRA, respectively). The RCF/RFI is also expected to catalyze support from other IFIs, including the World Bank and the Council of Europe Development Bank. The European Union and the European Bank for Reconstruction and Development are also exploring support options.

10. Debt sustainability analysis shows the public debt remains sustainable. The most recent DSA (March 2020) showed debt to be sustainable—with low risk of debt distress—and a sufficient buffer to remain so even after the impact of the virus. This is confirmed by an updated staff assessment of debt sustainability (Annex 1).

11. Moldova's capacity to repay the Fund remains adequate. Obligations to the Fund are projected to peak in 2024 and remain below 0.7 percent of GDP (or 4.9 percent of gross international reserves) in the next five years. Moldova's gross international reserves are sufficient to meet the country's obligation to the Fund.

12. Appropriate modalities are in place between NBM and the MoF on servicing future obligations of the RCF/RFI. As RCF/RFI is intended for direct budget support, the authorities have prepared a Memorandum of Understanding on servicing Moldova's obligations to the Fund.

13. The NBM is committed to undergo a safeguards assessment update prior to approval of any subsequent IMF arrangement, such as a follow-up fully-fledged three-year arrangement requested before the pandemic, and their commitment is set in the authorities' Letter of Intent.

STAFF APPRAISAL

14. Staff supports the authorities' request for emergency financial assistance amounting to 100 percent of quota under a blended RCF/RFI modality. Given the severe impact of COVID-19 on Moldova's economy and the urgent balance of payments and fiscal financing needs, access of 100 percent of quota is appropriate. Such financial support, equivalent to SDR172.5 million (about US$236 million) will close about 40 percent of Moldova's external financing gap, with remaining financing needs to be filled by other international partners and policy adjustments. This financing strategy will help facilitate a strong policy response to slow the spread of the virus and mitigate the immediate economic and social impact, while also reducing domestic financing pressures and avoiding potential crowding out of credit to the private sector.

15. The authorities are committed to safeguarding macroeconomic and financial stability. The authorities are pursuing timely policies that are temporary and targeted, to address imminent health system needs to fight the virus, safeguard employment, and protect the vulnerable and unemployed. The authorities agreed with staff on the near-term policy priorities, which focus on limiting the macro-financial impact and social fallouts of the crisis, while maintaining a sound policy framework to support a broad-based recovery. They committed to continue pursuing a consistent policy design and coordination across all relevant stakeholders.

16. The authorities remain committed to future engagement with the Fund under a UCT arrangement once the COVID-19 pandemic subsides. Prior to the pandemic, the authorities had officially requested to initiate negotiations of a UCT-quality governance-focused arrangement with the Fund, which is expected to follow the broad policy priorities in the 2020 Article IV staff report.

Table 1. Moldova: Selected Economic Indicators, 2016–2025 1/

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)									
Real sector indicators										
Gross domestic product										
Real growth rate	4.4	4.7	4.0	3.6	-3.0	4.1	3.8	3.8	3.8	3.8
Demand	2.6	6.8	6.4	6.3	-5.7	7.3	4.0	3.3	3.4	3.5
Consumption	2.6	4.7	3.2	2.6	-3.3	5.8	3.6	3.2	3.2	3.3
Private	2.9	5.3	3.8	3.1	-5.5	6.3	3.2	2.7	2.7	2.7
Public	0.6	1.1	-0.1	-0.5	10.1	3.3	5.8	6.1	6.5	7.1
Gross fixed capital formation	-0.9	8.0	14.0	12.9	-6.0	13.3	5.5	4.3	3.9	3.9
Net Exports of goods and services	5.9	-11.2	-14.3	-5.9	7.4	-20.2	-4.7	-1.3	-1.5	-2.3
Exports of goods and services	9.8	10.9	4.8	7.3	-7.4	15.3	8.4	8.1	6.9	5.2
Imports of goods and services	2.8	11.0	8.9	6.7	-7.4	17.6	6.7	5.1	4.6	4.0
Nominal GDP (billions of Moldovan lei)	160.8	178.9	190.0	210.1	212.3	234.8	263.3	291.7	322.5	356.8
Nominal GDP (billions of U.S. dollars)	8.1	9.7	11.3	12.0	11.2	12.3	13.3	14.3	15.4	16.5
Consumer price index (average)	6.4	6.6	3.1	4.8	2.8	2.3	5.5	5.0	5.0	5.0
Consumer price index (end of period)	2.4	7.3	0.9	7.5	0.5	6.0	5.0	5.0	5.0	5.0
GDP deflator	5.7	6.3	2.1	6.7	4.2	6.3	8.0	6.7	6.5	6.6
Average monthly wage (Moldovan lei)	5,084	5697	6,446	7,320	7,953	8,619	9,328	10,150	11,050	12,025
Average monthly wage (U.S. dollars)	255	308	384	417	420	452	472	498	527	554
Unemployment rate (annual average, percent)	4.2	4.1	3.0	3.0	6.0	5.0	4.0	4.0	4.0	4.0
	(Percent of GDP)									
Saving-investment balance										
Foreign saving	4.1	6.1	10.7	9.8	10.3	11.6	11.0	9.7	8.6	7.7
National saving	18.1	16.2	13.6	15.8	14.2	14.3	14.5	15.2	15.8	16.2
Private	16.4	13.7	11.3	13.9	18.1	14.0	13.5	14.0	14.5	14.9
Public	1.8	2.4	2.3	1.9	-3.8	0.2	1.0	1.3	1.3	1.2
Gross investment	22.2	22.3	24.3	25.6	24.6	25.8	25.4	25.0	24.4	23.9
Private	19.3	19.3	21.1	22.2	21.5	22.3	21.9	21.5	21.1	20.7
Public	2.9	3.0	3.2	3.3	3.0	3.5	3.5	3.5	3.3	3.2
Fiscal indicators (general government)										
Primary balance	-0.5	0.5	-0.2	-0.8	-6.1	-2.5	-1.7	-1.4	-1.2	-1.1
Overall balance	-1.5	-0.6	-0.8	-1.4	-6.9	-3.3	-2.5	-2.2	-2.1	-2.0
Stock of public and publicly guaranteed debt	36.9	32.7	30.6	27.9	36.0	35.4	34.7	33.8	32.5	31.5
	(Percent change, unless otherwise indicated)									
Financial indicators										
Broad money (M3)	10.2	9.4	7.8	8.2	3.4	...	...	...	...	...
Velocity (GDP/end-period M3; ratio)	2.3	2.3	2.3	2.3	2.3	...	...	...	...	...
Reserve money	12.1	11.2	17.7	7.6	-4.6	...	...	...	...	...
Credit to the economy	-7.6	-3.4	4.1	11.5	-4.4	...	...	...	...	...
Credit to the economy, percent of GDP	24.5	21.3	20.9	21.0	19.9	...	...	...	...	...
	(Millions of U.S. dollars, unless otherwise indicated)									
External sector indicators 2/										
Current account balance	-330	-592	-1211	-1170	-1160	-1424	-1461	-1391	-1319	-1270
Current account balance (percent of GDP)	-4.1	-6.1	-10.7	-9.8	-10.3	-11.6	-11.0	-9.7	-8.6	-7.7
Remittances and compensation of employees (net)	1,326	1,494	1,672	1,731	1,453	1,686	1,846	1,991	2,132	2,282
Gross official reserves	2,206	2,803	2,995	3,060	2,677	2,547	2,404	2,278	2,232	2,269
Gross official reserves (months of imports)	4.9	5.3	5.4	6.1	4.4	3.9	3.5	3.2	3.0	2.9
Exchange rate (Moldovan lei per USD, period average)	19.9	18.5	16.8	17.6	...	...	...	...	...	...
Exchange rate (Moldovan lei per USD, end of period)	20.0	17.1	17.1	17.2	...	...	...	...	...	...
Real effective exch.rate (average, percent change)	2.4	10.5	9.1	-1.0	...	...	...	...	...	...
External debt (percent of GDP) 3/	76.8	70.4	66.4	62.8	69.6	67.6	66.5	65.3	63.8	62.7
Debt service (percent of exports of goods and services)	13.1	12.6	14.7	13.5	15.2	13.0	12.5	12.7	13.0	12.9

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

3/ Includes private and public and publicly guaranteed debt.

Table 2a. Moldova: Balance of Payments, 2016–2025 1/

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-329.5	-592	-1,211	-1,170	-1,160	-1,424	-1,461	-1,391	-1,319	-1,270
Merchandise trade balance	-2,079	-2,559	-3,294	-3,313	-3,094	-3,671	-3,917	-4,087	-4,246	-4,427
Exports	1,558	1,866	1,975	2,116	1,887	2,271	2,463	2,670	2,878	3,038
Imports	3,636	4,425	5,269	5,429	4,981	5,942	6,380	6,756	7,124	7,465
Services balance	227	311	362	353	328	418	485	565	648	721
Exports of services	1,067	1,254	1,476	1,535	1,403	1,695	1,859	2,018	2,171	2,311
Imports of services	840	943	1,115	1,182	1,075	1,277	1,374	1,453	1,523	1,590
Income balance	446	558	549	576	574	647	716	780	839	903
Compensation of employees	641	762	861	896	744	870	953	1,030	1,109	1,192
Income on direct and portfolio investment	-193	-202	-311	-318	-168	-222	-236	-249	-269	-288
Other income	-2	-2	-2	-1	-1	-1	-1	-1	-1	-1
Current transfer balance	1,076	1,098	1,172	1,213	1,031	1,182	1,256	1,350	1,440	1,533
Remittances	684	732	812	835	710	816	894	961	1,023	1,090
Budget transfers	102	99	95	140	131	145	118	125	132	138
Other transfers	290	268	265	239	191	222	244	265	284	305
Capital and financial account balance	-812	-949	-1,405	-1,226	-315	-1,193	-1,220	-1,324	-1,380	-1,385
Capital account balance	-18	-21	-36	-52	-49	-48	-47	-46	-45	-44
Financial account balance (inflows: "-")	-830	-970	-1,441	-1,279	-364	-1,241	-1,267	-1,370	-1,425	-1,429
Foreign direct investment, net (inflows: "-")	-75	-144	-270	-546	-116	-317	-335	-372	-395	-405
Portfolio investment and derivatives, net	0	-1	5	4	0	2	2	3	2	2
Other investment, net	-755	-826	-1,176	-736	-248	-925	-934	-1,000	-1,033	-1,026
Loans	-39	-50	-121	-73	15	-166	-155	-198	-199	-228
General government, net	-63	-13	-8	1	-88	-117	-102	-132	-70	-102
Private sector, net	24	-37	-113	-74	103	-49	-54	-66	-129	-126
Other capital flows, net	-716	-776	-1,055	-664	-263	-759	-779	-802	-834	-798
Errors and omissions	-74	69	62	5	0	0	0	0	0	0
Overall balance	408	426	255	62	-845	-231	-241	-68	60	114
Financing	-408	-426	-255	-62	844	231	241	68	-60	-114
Gross international reserves (increase: "+")	531	531	236	60	-383	-130	-143	-126	-46	37
Use of Fund credit, net	-37	-44	-55	-36	184	-49	-32	-58	-106	-77
Monetary authorities	-37	9	-41	-37	-45	-44	-25	-8	-11	-12
Purchases	12	70	21	18	8	0	0	0	0	0
Repurchases	49	62	62	55	53	44	25	8	11	12
General government	0	-53	-14	2	230	-5	-7	-50	-95	-65
Purchases	24	-26	13	28	250	0	0	0	0	0
Repurchases	24	26	27	26	21	5	7	50	95	65
Exceptional financing	160	150	36	35	277	150	130	0	0	0
o/w										
European Commission	47	43	6	33	0	0	0	0	0	0
World Bank	45	0	29	0	57	0	0	0	0	0
Other official bilateral donors	68	108	0	0	220	150	130	0	0	0
	(Percent of GDP, unless otherwise indicated)									
Memorandum items:										
Gross official reserves (millions of U.S. dollars) 2/	2,206	2,803	2,995	3,060	2,677	2,547	2,404	2,278	2,232	2,269
Months of imports of good and services	4.9	5.3	5.4	6.1	4.4	3.9	3.5	3.2	3.0	2.9
Percent of short term debt and CA deficit	101.3	85.5	81.9	83.7	66.9	60.0	55.2	50.1	47.4	47.3
Pct of short-term debt at remaining maturity	139.0	135.7	120.4	122.7	103.8	91.4	81.2	70.7	64.8	64.9
Pct of the IMF composite measure (floating) 3/	169.8	184.2	176.3	177.2	152.8	135.6	120.9	107.8	98.8	94.5
Current account balance	-4.1	-6.1	-10.7	-9.8	-10.3	-11.6	-11.0	-9.7	-8.6	-7.7
Goods and services trade balance	-22.9	-23.2	-25.9	-24.8	-24.6	-26.4	-25.8	-24.6	-23.4	-22.5
Export of goods and services	32.5	32.3	30.5	30.5	29.3	32.2	32.4	32.7	32.8	32.5
Import of goods and services	55.5	55.5	56.5	55.3	54.0	58.6	58.2	57.3	56.2	55.0
Foreign direct investment balance	0.9	1.5	2.4	4.6	1.0	2.6	2.5	2.6	2.6	2.5
	(Percent change of amounts in U.S.dollars, unless otherwise indicated)									
Exports of goods	3.4	19.8	5.8	7.1	-10.8	20.3	8.5	8.4	7.8	5.6
Exports of services	8.7	17.6	17.7	3.9	-8.6	20.8	9.7	8.6	7.6	6.5
Imports of goods	0.2	21.7	19.1	3.0	-8.3	19.3	7.4	5.9	5.4	4.8
Imports of services	-1.1	12.2	18.2	6.0	-9.0	18.8	7.6	5.7	4.8	4.4
Remittances and compensation	16.4	15.4	14.8	14.5	13.0	13.7	13.9	13.9	13.9	13.9
Debt service (pct of exports of goods and services)	13.1	12.6	14.7	13.5	15.2	13.0	12.5	12.7	13.0	12.9

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 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 2b. Moldova: Balance of Payments, 2016–2025 1/

(Percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-4.1	-6.1	-10.7	-9.8	-10.3	-11.6	-11.0	-9.7	-8.6	-7.7
Merchandise trade balance	-25.8	-26.5	-29.1	-27.7	-27.6	-29.8	-29.4	-28.5	-27.6	-26.9
Exports	19.3	19.3	17.5	17.7	16.8	18.4	18.5	18.7	18.7	18.5
Imports	45.1	45.8	46.6	45.4	44.4	48.3	47.9	47.2	46.3	45.4
Services balance	2.8	3.2	3.2	3.0	2.9	3.4	3.6	3.9	4.2	4.4
Exports of services	13.2	13.0	13.1	12.8	12.5	13.8	14.0	14.1	14.1	14.0
Imports of services	10.4	9.7	9.9	9.9	9.6	10.4	10.3	10.1	9.9	9.7
Income balance	5.5	5.8	4.9	4.8	5.1	5.3	5.4	5.4	5.5	5.5
Compensation of employees	7.9	7.9	7.6	7.5	6.6	7.1	7.1	7.2	7.2	7.2
Income on direct and portfolio investment	-2.4	-2.1	-2.7	-2.7	-1.5	-1.8	-1.8	-1.7	-1.8	-1.8
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current transfer balance	13.3	11.4	10.4	10.1	9.2	9.6	9.4	9.4	9.4	9.3
Remittances	8.5	7.6	7.2	7.0	6.3	6.6	6.7	6.7	6.7	6.6
Budget transfers	1.3	1.0	0.8	1.2	1.2	1.2	0.9	0.9	0.9	0.8
Other transfers	3.6	2.8	2.3	2.0	1.7	1.8	1.8	1.8	1.9	1.9
Capital and financial account balance	-10.1	-9.8	-12.4	-10.3	-2.8	-9.7	-9.2	-9.2	-9.0	-8.4
Capital account balance	-0.2	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3
Financial account balance	-10.3	-10.0	-12.7	-10.7	-3.2	-10.1	-9.5	-9.6	-9.3	-8.7
Foreign direct investment, net (inflows: "-")	-0.9	-1.5	-2.4	-4.6	-1.0	-2.6	-2.5	-2.6	-2.6	-2.5
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
Other investment, net	-9.4	-8.5	-10.4	-6.2	-2.2	-7.5	-7.0	-7.0	-6.7	-6.2
Loans	-0.5	-0.5	-1.1	-0.6	0.1	-1.3	-1.2	-1.4	-1.3	-1.4
General government, net	-0.8	-0.1	-0.1	0.0	-0.8	-1.0	-0.8	-0.9	-0.5	-0.6
Private sector, net	0.3	-0.4	-1.0	-0.6	0.9	-0.4	-0.4	-0.5	-0.8	-0.8
Other capital flows, net	-8.9	-8.0	-9.3	-5.6	-2.3	-6.2	-5.8	-5.6	-5.4	-4.9
Errors and omissions	-0.9	0.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	5.1	4.4	2.3	0.5	-7.5	-1.9	-1.8	-0.5	0.4	0.7
Financing	-5.1	-4.4	-2.3	-0.5	7.5	1.9	1.8	0.5	-0.4	-0.7
Gross international reserves (increase: "+")	6.6	5.5	2.1	0.5	-3.4	-1.1	-1.1	-0.9	-0.3	0.2
Use of Fund credit, net	-0.5	-0.5	-0.5	-0.3	1.6	-0.4	-0.2	-0.4	-0.7	-0.5
Monetary authorities	-0.5	0.1	-0.4	-0.3	-0.4	-0.4	-0.2	-0.1	-0.1	-0.1
Purchases	0.1	0.7	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.6	0.5	0.5	0.5	0.4	0.2	0.1	0.1	0.1
General government	0.0	-0.5	-0.1	0.0	2.0	0.0	-0.1	-0.3	-0.6	-0.4
Purchases	0.0	-0.3	0.1	0.2	2.2	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.3	0.2	0.2	0.2	0.0	0.1	0.3	0.6	0.4
Exceptional financing	4.5	1.5	0.3	0.3	2.5	1.2	1.0	0.0	0.0	0.0
o/w										
European Commission	0.0	0.4	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.3	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Other official bilateral donors	0.0	1.1	0.0	0.0	2.0	1.2	1.0	0.0	0.0	0.0
Memorandum items:										
Gross official reserves (millions of U.S. dollars) 2/	2,206	2,803	2,995	3,060	2,677	2,547	2,404	2,278	2,232	2,269
Months of imports of good and services	4.9	5.3	5.4	6.1	4.4	3.9	3.5	3.2	3.0	2.9
Percent of short term debt and CA deficit	101.3	85.5	81.9	83.7	66.9	60.0	55.2	50.1	47.4	47.3
Pct of short-term debt at remaining maturity	139.0	135.7	120.4	122.7	103.8	91.4	81.2	70.7	64.8	64.9
Pct of the IMF composite measure (floating) 3/	169.8	184.2	176.3	177.2	152.8	135.6	120.9	107.8	98.8	94.5
Current account balance	-4.1	-6.1	-10.7	-9.8	-10.3	-11.6	-11.0	-9.7	-8.6	-7.7
Goods and services trade balance	-22.9	-23.2	-25.9	-24.8	-24.6	-26.4	-25.8	-24.6	-23.4	-22.5
Export of goods and services	32.5	32.3	30.5	30.5	29.3	32.2	32.4	32.7	32.8	32.5
Import of goods and services	55.5	55.5	56.5	55.3	54.0	58.6	58.2	57.3	56.2	55.0
Foreign direct investment balance	0.9	1.5	2.4	4.6	1.0	2.6	2.5	2.6	2.6	2.5
(Percent change of amounts in U.S.dollars, unless otherwise indicated)										
Exports of goods	3.4	19.8	5.8	7.1	-10.8	20.3	8.5	8.4	7.8	5.6
Exports of services	8.7	17.6	17.7	3.9	-8.6	20.8	9.7	8.6	7.6	6.5
Imports of goods	0.2	21.7	19.1	3.0	-8.3	19.3	7.4	5.9	5.4	4.8
Imports of services	-1.1	12.2	18.2	6.0	-9.0	18.8	7.6	5.7	4.8	4.4
Remittances and compensation	16.4	15.4	14.8	14.5	13.0	13.7	13.9	13.9	13.9	13.9
Remittances	-0.3	6.9	10.9	2.8	-15.0	15.0	9.5	7.5	6.5	6.5
Compensation of employees	-8.3	18.8	12.9	4.1	-17.0	17.0	9.5	8.1	7.7	7.5
Debt service (pct of exports of goods and services)	13.1	12.6	14.7	13.5	15.2	13.0	12.5	12.7	13.0	12.9

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 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 3a. Moldova: General Government Budget, 2016–2025

(Millions of Moldovan lei, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	45,947	53,379	57,996	62,949	61,642	71,922	79,136	87,605	96,696	106,961
Revenues	44,574	52,371	57,609	61,347	60,518	70,654	78,425	86,817	95,825	105,997
Tax revenues	42,502	49,990	54,816	58,458	57,670	67,277	74,656	82,657	91,241	100,942
Personal income	3,182	3,649	3,982	3,970	3,976	4,386	4,901	5,429	6,004	6,642
Corporate income	3,363	4,074	5,357	5,365	4,672	5,997	6,724	7,448	8,237	9,113
Property tax	404	546	564	580	581	642	720	798	882	976
VAT	14,564	16,870	18,616	20,183	19,379	23,293	25,453	28,220	31,130	34,440
Excises	4,546	5,950	5,683	6,222	6,212	7,010	8,018	8,853	9,754	10,792
Foreign trade	1,452	1,591	1,666	1,798	1,740	2,136	2,377	2,595	2,817	3,117
Other	1,722	1,796	1,793	1,935	1,916	2,120	2,377	2,633	2,911	3,221
Social Fund contributions	10,031	11,866	13,038	13,636	14,097	15,950	17,883	19,810	21,907	24,236
Health Fund contributions	3,240	3,648	4,118	4,768	5,098	5,744	6,203	6,871	7,598	8,406
Non-tax revenues	2,072	2,381	2,793	2,889	2,848	3,378	3,769	4,160	4,584	5,055
NBM profit transfers	0	0	0	0	218	241	270	299	331	366
Grants	1,373	1,009	387	1,603	1,124	1,267	711	788	871	963
Budget support	953	741	0	1,235	300	312	0	0	0	0
Project	420	268	387	368	824	955	711	788	871	963
Expenditure and net lending	48,434	54,524	59,609	65,972	76,328	79,671	85,718	94,064	103,317	114,108
Current expenditure	43,773	49,091	53,597	58,975	69,859	71,376	76,486	83,892	92,513	102,568
Wages	10,967	12,506	13,733	15,649	17,219	18,896	20,610	22,830	25,246	27,931
Goods and services	9,498	10,587	11,209	12,080	13,912	14,942	16,265	17,981	19,844	21,910
Interest payments	1,812	1,959	1,526	1,641	1,909	2,003	2,374	2,502	2,919	3,428
Domestic	1,477	1,581	1,129	1,213	1,431	1,456	1,744	1,790	2,094	2,475
Foreign	334	378	397	428	478	548	630	712	825	952
Transfers	18,198	20,383	23,411	24,616	30,283	29,912	31,127	34,480	38,130	42,184
Transfers to economy 1/	1,799	2,417	3,462	2,316	5,534	4,518	4,081	4,521	4,999	5,531
Transfers to households	16,399	17,966	19,949	22,301	24,749	25,395	27,046	29,960	33,130	36,653
Other current expenditure	3,299	3,655	3,718	4,989	6,537	5,623	6,111	6,099	6,374	7,116
Capital expenditure	4,661	5,434	6,012	6,997	6,469	8,295	9,232	10,171	10,804	11,541
One-off revenue and expenditure items 2/	-13,341	0	0	0	0	0	0	0	0	0
Overall balance (incl. one-off items)	-15,828	-1,145	-1,613	-3,023	-14,686	-7,750	-6,583	-6,459	-6,622	-7,148
Overall balance (excl. one-off items)	-2,487	-1,145	-1,613	-3,023	-14,686	-7,750	-6,583	-6,459	-6,622	-7,148
Primary balance (excl. one-off items)	-792	807	-293	-1,595	-12,984	-5,961	-4,432	-4,189	-3,943	-3,970
Financing (excl. one-off items)	-237	-1,332	902	2,142	5,791	4,889	6,583	6,459	6,622	7,148
Budget financing	-1,773	-2,256	-636	693	2,970	1,023	2,174	1,127	1,030	1,251
Central government	-793	-1,770	27	775	2,970	1,023	2,174	1,127	1,030	1,251
Net domestic	-127	-581	1,094	1,701	3,811	3,074	2,095	4,826	6,103	5,800
Net foreign (excl. project loans)	-761	-1,279	-1,766	-2,123	-991	-2,201	-71	-3,848	-5,223	-4,700
Privatization	279	153	140	85	150	150	150	150	150	150
Others	-183	-63	559	1,112	0	0	0	0	0	0
Local governments	-794	-285	-136	211	0	0	0	0	0	0
Privatization	18	6	1	2	0	0	0	0	0	0
Social Fund	-96	-204	-364	-146	0	0	0	0	0	0
Health Fund	-91	4	-163	-147	0	0	0	0	0	0
Net project loans	1,536	924	1,538	1,613	2,821	3,866	4,408	5,332	5,591	5,897
Of which: Onlending (through commercial banks)	-40	-280	-105	-113	-545	-485	-97	-107	-119	-131
Financing gap	2,724	2,477	711	880	8,895	2,861	0	0	0	0
World Bank	889	0	490	0	0	0	0	0	0	0
IMF	480	479	221	490	4,733	0	0	0	0	0
Others	1,355	1,998	0	391	4,162	2,861	0	0	0	0
Financing for one-off items										
Government securities issued	13,341	0	0	0	0	0	0	0	0	0
					(Millions of Moldovan lei)					
Memorandum items:										
Public and publicly guaranteed debt	59,413	58,502	58,198	58,578	76,425	83,219	91,260	98,571	104,790	112,260
Domestic public debt 3/	23,758	24,272	24,906	25,506	29,609	32,625	34,957	38,110	41,240	44,435
Domestic expenditure arrears	101	40	55	44	0	0	0	0	0	0
External debt 4/	35,554	34,189	33,238	33,027	46,816	50,594	56,303	60,462	63,550	67,825

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.

3/ Starting with 2019, includes domestic guarantees and domestic debt of SOEs.

4/ Includes central bank liabilities to the IMF.

Table 3b. Moldova: General Government Budget, 2016–2025

(Percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Prelim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	28.6	29.8	30.5	30.0	29.0	30.6	30.1	30.0	30.0	30.0
Revenues	27.7	29.3	30.3	29.2	28.5	30.1	29.8	29.8	29.7	29.7
Tax revenues	26.4	27.9	28.8	27.8	27.2	28.6	28.4	28.3	28.3	28.3
Personal income	2.0	2.0	2.1	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Corporate income	2.1	2.3	2.8	2.6	2.2	2.6	2.6	2.6	2.6	2.6
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
VAT	9.1	9.4	9.8	9.6	9.1	9.9	9.7	9.7	9.7	9.7
Excises	2.8	3.3	3.0	3.0	2.9	3.0	3.0	3.0	3.0	3.0
Foreign trade	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9
Other	1.1	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Social Fund contributions	6.2	6.6	6.9	6.5	6.6	6.8	6.8	6.8	6.8	6.8
Health Fund contributions	2.0	2.0	2.2	2.3	2.4	2.4	2.4	2.4	2.4	2.4
Non-tax revenues	1.3	1.3	1.5	1.4	1.3	1.4	1.4	1.4	1.4	1.4
NBM profit transfers	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.9	0.6	0.2	0.8	0.5	0.5	0.3	0.3	0.3	0.3
Budget support	0.6	0.4	0.0	0.6	0.1	0.1	0.0	0.0	0.0	0.0
Project	0.3	0.1	0.2	0.2	0.4	0.4	0.3	0.3	0.3	0.3
Expenditure and net lending	30.1	30.5	31.4	31.4	36.0	33.9	32.6	32.3	32.0	32.0
Current expenditure	27.2	27.4	28.2	28.1	32.9	30.4	29.0	28.8	28.7	28.7
Wages	6.8	7.0	7.2	7.4	8.1	8.0	7.8	7.8	7.8	7.8
Goods and services	5.9	5.9	5.9	5.7	6.6	6.4	6.2	6.2	6.2	6.1
Interest payments	1.1	1.1	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.0
Domestic	0.9	0.9	0.6	0.6	0.7	0.6	0.7	0.6	0.6	0.7
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Transfers	11.3	11.4	12.3	11.7	14.3	12.7	11.8	11.8	11.8	11.8
Transfers to economy 1/	1.1	1.4	1.8	1.1	2.6	1.9	1.5	1.5	1.5	1.5
Transfers to households	10.2	10.0	10.5	10.6	11.7	10.8	10.3	10.3	10.3	10.3
Other current expenditure	2.1	2.0	2.0	2.4	3.1	2.4	2.3	2.1	2.0	2.0
Capital expenditure	2.9	3.0	3.2	3.3	3.0	3.5	3.5	3.5	3.3	3.2
One-off revenue and expenditure items 2/	-8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (incl. one-off items)	-9.8	-0.6	-0.8	-1.4	-6.9	-3.3	-2.5	-2.2	-2.1	-2.0
Overall balance (excl. one-off items)	-1.5	-0.6	-0.8	-1.4	-6.9	-3.3	-2.5	-2.2	-2.1	-2.0
Primary balance (excl. one-off items)	-0.5	0.5	-0.2	-0.8	-6.1	-2.5	-1.7	-1.4	-1.2	-1.1
Financing (excl. one-off items)	-0.1	-0.7	0.5	1.0	2.7	2.1	2.5	2.2	2.1	2.0
Budget financing	-1.1	-1.3	-0.3	0.3	1.4	0.4	0.8	0.4	0.3	0.4
Central government	-0.5	-1.0	0.0	0.4	1.4	0.4	0.8	0.4	0.3	0.4
Net domestic	-0.1	-0.3	0.6	0.8	1.8	1.3	0.8	1.7	1.9	1.6
Net foreign (excl. project loans)	-0.5	-0.7	-0.9	-1.0	-0.5	-0.9	0.0	-1.3	-1.6	-1.3
Privatization	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Others	-0.1	0.0	0.3	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	-0.5	-0.2	-0.1	0.1	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
Social Fund	-0.1	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Health Fund	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net project loans	1.0	0.5	0.8	0.8	1.3	1.6	1.7	1.8	1.7	1.7
Of which: Onlending (through commercial banks)	0.0	-0.2	-0.1	-0.1	-0.3	-0.2	0.0	0.0	0.0	0.0
Financing gap	1.7	1.4	0.4	0.4	4.2	1.2	0.0	0.0	0.0	0.0
World Bank	0.6	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.3	0.3	0.1	0.2	2.2	0.0	0.0	0.0	0.0	0.0
Others	0.8	1.1	0.0	0.2	2.0	1.2	0.0	0.0	0.0	0.0
Financing for one-off items										
Government securities issued	8.3	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	36.9	32.7	30.6	27.9	36.0	35.4	34.7	33.8	32.5	31.5
Domestic public debt 3/	14.8	13.6	13.1	12.1	13.9	13.9	13.3	13.1	12.8	12.5
Domestic expenditure arrears	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt 4/	22.1	19.1	17.5	15.7	22.1	21.5	21.4	20.7	19.7	19.0

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.

3/ Starting with 2019, includes domestic guarantees and domestic debt of SOEs.

4/ Includes central bank liabilities to the IMF.

Table 4. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2012–2020

(Millions of Moldovan lei, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
								Prelim.	Proj.
National Bank of Moldova									
Net foreign assets 1/	24,690	30,969	27,540	27,826	37,695	42,153	45,700	47,526	46,560
NFA (convertible)	24,693	31,006	27,539	27,850	38,041	43,045	46,855	48,513	47,560
Gross reserves	30,339	36,829	33,676	34,536	44,078	47,936	51,345	52,654	50,750
Reserve liabilities	5,647	5,823	6,137	6,686	6,037	4,891	4,490	4,141	3,190
Net domestic assets	-4,159	-4,891	182	1,863	-4,419	-5,156	-2,143	-675	-1,841
Net claims on general government	192	476	-270	-1,163	10,397	7,964	7,956	9,347	9,107
Credit to banks	-3,451	-2,340	7,427	13,399	-5,915	-9,217	-6,299	-5,403	-5,781
Other items (net)	-900	-3,027	-6,975	-10,373	-8,901	-3,903	-3,800	-4,619	-5,167
Reserve money	20,531	26,078	27,722	29,689	33,276	36,997	43,557	46,851	44,719
Currency in circulation	13,241	17,550	17,500	15,509	17,274	19,053	21,077	22,953	23,315
Banks' reserves	7,285	8,515	10,222	13,335	15,007	17,240	22,315	23,860	21,404
Required reserves	5,202	6,346	6,290	11,521	13,494	16,266	18,656	20,518	20,894
Other reserves	2,082	2,169	3,932	1,814	1,513	974	3,659	3,342	510
Monetary survey									
Net foreign assets	23,141	32,072	43,152	49,300	61,509	67,877	71,780	74,503	76,023
NFA (convertible)	23,427	31,731	37,497	43,317	55,633	61,871	65,793	68,481	70,010
Of which: commercial banks	-1,266	725	9,958	15,466	17,593	18,826	18,938	19,968	22,450
Foreign assets of commercial banks	4,778	10,496	19,005	22,205	22,274	23,237	22,641	23,342	26,073
Foreign liabilities of commercial banks	-6,044	-9,770	-9,047	-6,739	-4,681	-4,411	-3,703	-3,374	-3,623
NFA (non-convertible)	-286	340	5,655	5,984	5,876	6,006	5,987	6,022	6,012
Net domestic assets	26,372	30,560	22,821	14,705	8,999	9,233	11,378	15,448	16,993
Net claims on general government	1,004	1,478	821	-99	12,612	11,455	12,353	13,438	17,891
Credit to economy	35,948	42,633	41,273	42,721	39,455	38,101	39,656	44,207	42,277
Moldovan lei	20,624	25,289	25,173	24,219	21,656	21,657	22,779	27,302	24,102
Foreign exchange	15,324	17,343	16,100	18,502	17,798	16,445	16,878	16,905	18,175
in U.S. dollars	1,270	1,328	1,031	941	891	962	985	982	959
Other items (net)	-10,580	-13,551	-19,273	-27,917	-43,068	-40,323	-40,631	-42,198	-43,174
Broad money (M3)	49,513	62,631	65,973	64,005	70,508	77,110	83,159	89,951	93,015
Broad money (M2: excluding FCD)	34,915	45,117	43,220	39,260	46,418	53,043	58,334	63,137	58,511
Currency in circulation	13,241	17,550	17,509	15,509	17,274	19,053	21,077	22,953	23,315
Total deposits	36,272	45,081	48,464	48,497	53,245	58,003	62,081	66,997	69,701
Domestic currency deposits	21,674	27,567	25,711	23,751	29,155	33,937	37,257	40,184	35,196
Foreign currency deposits (FCD)	14,599	17,514	22,753	24,745	24,090	24,067	24,824	26,814	34,505
in U.S. dollars	1,210	1,341	1,457	1,259	1,206	1,407	1,448	1,558	1,820
Memorandum items:									
Reserve money growth (percent change; annual)	19.7	27.0	6.3	7.1	12.1	11.2	17.7	7.6	-4.6
Broad money growth (percent change; annual)	20.8	26.5	5.3	-3.0	10.2	9.4	7.8	8.2	3.4
Credit to economy (percent change, annual)	16.1	18.6	-3.2	3.5	-7.6	-3.4	4.1	11.5	-4.4
in lei	20.1	22.6	-0.5	-3.8	-10.6	0.0	5.2	19.9	-11.7
in foreign exchange ($ equivalent)	8.1	4.6	-22.4	-8.7	-5.4	8.0	2.4	-0.2	-2.4
Gross international reserves (millions of U.S. dollars	2,515	2,821	2,157	1,757	2,206	2,803	2,995	3,060	2,677
Percent of domestic-currency broad money	87	82	78	88	95	90	88	83	87
Net international reserves (millions of U.S. dollars)	2,047	2,375	1,764	1,417	1,904	2,517	2,733	2,819	2,509
Broad money multiplier	2.4	2.4	2.4	2.2	2.1	2.1	1.9	1.9	2.1

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

1/ Monetary accounts are presented at actual exchange rates, unless otherwise indicated.

Table 5. Moldova: Financial Soundness Indicators, 2012–19

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

	2012	2013	2014	2015	2016	2017				2018				2019		
	Dec	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Size																
Number of banks	14	14	14	11	11	11	11	11	11	11	11	11	11	11	11	11
Total bank assets (billions of lei)	58.3	76.2	97.5	69.1	72.9	74.0	75.0	77.5	79.5	81.0	80.1	82.3	83.2	82.9	86.8	87.5
Total bank assets (percent of GDP)	66.1	76.3	87.0	56.7	54.2	49.9	50.6	52.3	52.9	42.6	42.2	43.3	43.8	40.0	41.9	42.2
Capital adequacy																
Capital adequacy ratio	24.8	23.4	13.2	26.2	30.1	29.7	28.9	30.7	31.0	33.2	33.8	27.9	26.5	26.9	26.5	25.7
Liquidity																
Liquid assets (billions of lei)	19.2	25.7	21.1	28.7	35.9	37.2	38.5	41.3	44.1	46.0	44.7	44.9	45.4	43.3	44.8	44.1
Total deposits (billions of lei)	39.8	51.9	65.5	50.2	54.8	55.6	56.2	58.2	59.9	60.6	60.9	61.9	63.5	62.4	65.7	66.0
Liquidity ratio (liquid assets in percent of total	48.2	49.6	32.2	57.2	65.5	67.0	68.5	71.0	73.7	75.9	73.4	72.5	71.6	69.5	68.1	66.8
Liquid assets in total assets	32.9	33.8	21.6	41.5	49.2	50.3	51.3	53.2	55.5	56.8	55.9	54.6	54.6	52.3	51.6	50.4
Asset quality																
Gross loans (billions of lei)	35.0	42.2	40.8	38.2	34.8	34.2	34.2	33.8	33.5	32.4	33.1	34.6	35.5	36.5	38.8	39.6
Nonperforming loans (billions of lei)	5.1	4.9	4.8	3.8	5.7	5.5	6.0	5.9	6.2	5.3	4.9	4.7	4.4	4.2	4.1	4.0
Nonperforming loans as a share of total loans	14.5	11.6	11.7	9.9	16.4	16.2	17.6	17.4	18.4	16.2	14.7	13.5	12.5	11.5	10.6	10.2
Provisions to non-performing loans	73.5	83.6	88.4	85.5	81.8	84.9	83.8	83.6	80.6	84.1	85.2	87.1	86.6	90.4	93.8	94.9
Profitability																
Return on equity	5.6	9.4	6.1	12.8	12.0	15.3	14.6	14.3	11.1	15.2	12.7	12.7	11.6	14.4	15.5	15.6
Return on assets	1.1	1.6	0.9	2.1	2.0	2.6	2.4	2.4	1.8	2.4	2.1	2.1	1.9	2.4	2.6	2.6
Foreign currency assets and liabilities																
Foreign currency denominated liabilities in total	48.9	51.0	49.5	52.8	46.8	46.2	44.9	46.4	44.1	44.4	42.2	42.4	42.1	43.2	43.7	42.6
Foreign currency denominated assets in total	40.9	44.7	47.0	42.5	38.9	38.0	37.5	38.5	36.8	37.1	34.9	35.3	34.7	34.1	35.0	33.5
Foreign currency deposits in total deposits	40.2	44.7	52.1	52.5	46.5	45.7	44.5	46.0	42.8	42.7	41.3	41.0	41.1	41.9	42.6	41.8
Foreign currency denominated loans in total	42.6	40.4	39.8	42.1	44.3	43.3	41.6	41.4	41.7	40.3	38.2	39.1	38.5	36.9	35.6	33.8

Source: National Bank of Moldova.

Table 6. Moldova: Capacity to Repay the Fund, 2012–2025 1/

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
									Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund obligations based on existing credit (millions of SDRs)														
Principal	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	23.2	12.9	18.2	20.4
Charges and interest	1.2	1.6	1.6	1.5	1.4	1.9	3.5	3.8	3.3	2.4	2.1	1.9	1.7	1.5
Fund obligations based on existing and prospective credit														
Principal	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	23.2	41.6	75.7	54.9
Charges and interest	1.2	1.6	1.6	1.5	1.4	1.9	3.5	3.8	4.4	4.4	4.1	3.8	2.8	1.7
Total obligations based on existing and prospective credit														
Millions of SDRs	11.7	15.8	20.9	30.6	53.9	65.4	66.0	62.8	57.7	39.7	27.3	45.5	78.5	56.6
Millions of U.S. dollars	18.0	24.0	31.7	42.8	75.0	90.7	93.4	86.8	79.7	55.1	38.1	63.5	109.9	79.6
Percent of exports of goods and services	0.7	0.8	1.1	1.7	2.9	2.9	2.7	2.4	2.4	1.4	0.9	1.4	2.2	1.5
Percent of debt service 2/	19.7	23.6	30.9	46.5	60.3	49.3	39.3	40.3	35.1	25.2	20.4	24.9	33.9	29.4
Percent of GDP	0.2	0.3	0.3	0.6	0.9	0.9	0.8	0.7	0.7	0.4	0.3	0.4	0.7	0.5
Percent of gross international reserves	0.7	0.8	1.5	2.4	3.4	3.2	3.1	2.8	3.0	2.2	1.6	2.8	4.9	3.5
Percent of quota	9.5	12.8	17.0	24.8	31.3	37.9	38.2	36.4	33.5	23.0	15.8	26.3	45.5	32.8
Outstanding Fund credit based on existing and prospective credit														
Millions of SDRs	398.2	384.0	364.7	335.6	309.1	277.0	262.6	227.5	332.3	297.0	273.8	232.2	156.4	101.5
Millions of U.S. dollars	609.9	583.5	553.9	469.6	429.6	384.1	371.7	314.4	458.9	412.1	381.2	324.1	219.0	142.6
Percent of exports of goods and services	22.5	19.2	18.7	18.9	16.4	12.3	10.8	8.6	13.9	10.4	8.8	6.9	4.3	2.7
Percent of debt service 2/	667.0	575.0	540.1	509.3	345.4	208.9	156.3	146.1	202.1	188.4	204.2	127.1	67.6	52.8
Percent of GDP	7.0	6.1	5.8	6.1	5.3	4.0	3.3	2.6	4.1	3.3	2.9	2.3	1.4	0.9
Percent of gross international reserves	24.2	20.7	25.7	26.7	19.5	13.7	12.4	10.3	17.1	16.2	15.9	14.2	9.8	6.3
Percent of quota	323.2	311.7	296.1	272.4	179.2	160.6	152.2	131.9	192.6	172.2	158.7	134.6	90.7	58.8
Net use of Fund credit (millions of SDRs)	89.5	-14.2	-19.3	-29.1	-26.5	-32.1	-38.5	-25.4	133.5	-35.3	-23.2	-41.6	-75.7	-54.9
Disbursements and purchases	100.0	0.0	0.0	0.0	26.0	31.4	24.0	33.6	186.9	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	23.2	41.6	75.7	54.9
Memorandum items:														
Exports of goods and services (millions of U.S. dollars)	2,708	3,041	2,959	2,488	2,624	3,120	3,452	3,651	3,290	3,966	4,322	4,688	5,049	5,349
Debt service (millions of U.S. dollars) 2/	91.4	101.5	102.6	92.2	124.4	183.9	237.8	215.1	227.1	218.7	186.7	255.1	324.1	270.3
Nominal GDP (millions of U.S. dollars) 2/	8,708	9,496	9,510	7,726	8,072	9,670	11,309	11,956	11,221	12,312	13,325	14,315	15,373	16,450
Gross International Reserves (millions of U.S. dollars)	2,515	2,821	2,157	1,757	2,206	2,803	2,995	3,060	2,677	2,547	2,404	2,278	2,232	2,269
Average exchange rate: SDR per U.S. dollars	0.65	0.66	0.66	0.71	0.72	0.72	0.71	0.72	0.72	0.72	0.72	0.72	0.71	0.71
Quota (millions of SDRs)	123.2	123.2	123.2	123.2	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 7. External Financing Requirements and Sources, 2016–2020

(Millions of U.S. dollars)

	2016	2017	2018	2019	2020
				Proj.	
Gross financing requirement 1/	541	807	1599	1584	1688
of which: fiscal financing requirements	58	75	115	125	132
Identified financing sources	924	1186	1773	1565	770
Change in gross reserves (increase = +)	531	531	236	60	-383
Financing gap	148	152	62	80	535
Official Financing	148	152	62	80	535
Identified program financing	113	108	29	33	277
European Commission	0	0	0	33	0
World Bank	45	0	29	0	57
Other official bilateral donors	68	108	0	0	220
Fund Program	35	44	33	47	258
of which: budget support	24	26	13	28	250

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 disbursed in March 2020.

Annex I. Debt Sustainability Analysis—Update[1]

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

In the COVID-19 scenario, Moldova's risk of debt distress remains low—unchanged from the most recent Debt Sustainability Analysis (DSA) published in March 2020. Overall public debt dynamics are sustainable with space to absorb shocks (PV of total PPG debt-to-GDP ratio remains well below the debt distress benchmark of 70 percent). Large near-term fiscal and external financing needs are assumed to be closed by drawing down existing reserve buffers and accessing official bilateral financing from Russia, World Bank resources and the use of Fund credit under the RCF/RFI blend. Both public and private sector external debt-to-GDP ratios are projected to increase in the short-term on the back of increased public sector borrowing and lower nominal GDP and to return to their historical averages in the medium term. In the long term, public investments are largely financed by concessional donor funding and after 2030 commercial borrowing. In view of the country's significant vulnerability to shocks, fiscal discipline remains critical to safeguard sustainability. The current baseline reflects information available as of April 8, 2020, but the economic impact of the COVID-19 remains highly uncertain and policy response to the crisis is rapidly evolving; risks are heavily tilted to the downside.

1. **The macroeconomic assumptions of the DSA reflect economic developments related to the COVID-19 pandemic and policies underpinning the RCF/RFI.** The COVID-19 scenario relies on the implementation of a fiscal stimulus program to mitigate the economic and social impact of the crisis and to support the recovery, while maintaining macroeconomic and financial stability. Staff is recommending a targeted and temporary relaxation of the fiscal stance to accommodate widening of the general government deficit to 6.9 percent of GDP in 2020 in view of the shortfall in revenue and higher health and priority social expenditure. Real GDP is expected to contract by 3 percent, nearly 7 percentage points below the pre-pandemic baseline, largely due to sharp domestic and external demand contraction and supply shocks on account of aggressive virus containment measures (see Text Table 1). As of April 3, 2020, the lei depreciated modestly against the US dollar by 7.8 percent, while NBM has cut its policy rate by cumulative 175 basis points, reduced the MDL required reserve ratio from 40.5 to 34 percent, and increased the FX required reserve ratio from 18 to 19 percent. The NBM has also intervened daily in the FX market since March 17, 2020, selling cumulative of $153.5 million (1.4 percent of GDP) from its reserves. Automatic stabilizers should provide a cushion. The large external financing need—estimated at US$867 million in

[1] Prepared by the staffs of the International Monetary Fund (IMF) and the World Bank (WB). Approved By Philip Gerson (EUR) and Marcello Estevão (WB).

2020—is expected to be fully closed by cautiously drawing down existing reserve buffers, official bilateral financing from Russia (US$220 million), World Bank resources (US$ 57.4 million) and the use of Fund credit under the RCF/RFI blend of SDR 172.5 million (US$ 236 million), disbursed for budget support[2,3]. Growth is expected to rebound in 2020H2 and remain solid at about 4 percent over the medium-term, with moderate inflation at around target, and a gradual narrowing of the current account deficit to about 7.7 percent of GDP, financed by strong capital and investment flows. The scenario includes the most recent IMF global assumptions and the latest available information on Moldova's debt.

Text Table 1. Moldova: Key Macroeconomic Assumptions
(DSA COVID-19 scenario vs DSA March 2020)

	2017-19	2020-30
Real GDP growth (percent)		
DSA April 2020	4.1	3.2
DSA March 2020	4.3	3.8
Inflation (GDP deflator, in US dollar terms)		
DSA April 2020	9.6	2.4
DSA March 2020	9.2	1.7
Total Revenue (percent of GDP)[1]		
DSA April 2020	29.6	29.6
DSA March 2020	29.7	29.4
Current Account (non-interest, in percent of GDP)		
DSA April 2020	8.2	8.0
DSA March 2020	8.1	6.9

Source: Moldova authorities and Staff calculations.

[1] Total revenue, inlcuding grants.

2. Despite the significant macroeconomic shock, Moldova remains at low risk of external and overall debt distress, in line with the previous DSA assessment. Under the baseline COVID-19 scenario and alternative scenarios, all external debt and public debt indicators continue to remain below their policy-relevant thresholds. The present value of PPG external debt increases marginally to 13 percent of GDP by 2030 relative to 12.2 percent of GDP in March 2020 scenario (pre-COVID19). The ratio will remain below the 55 percent threshold under the baseline scenario throughout the projection period (Figure 1). The PV of public debt–to-GDP in 2030 stands below the benchmark level of 70 percent. Moldova's PV of total public debt-to-GDP is expected to increase relative to the pre-crisis scenario but remain comfortably below the benchmark at around 26 percent in the medium-term (Figure 2). Similarly, debt service indicators remain well below their respective thresholds. Under the most extreme shock scenario (growth shock), the PV of

[2] A last disbursement equivalent to SDR 14.4 million (US$20 million) under the ECF/EFF was received by Moldova in March 2020.

[3] Moldova will continue to benefit from significant grant financing in the medium-term, leaving the grant element of new borrowing at about 34.7 percent.

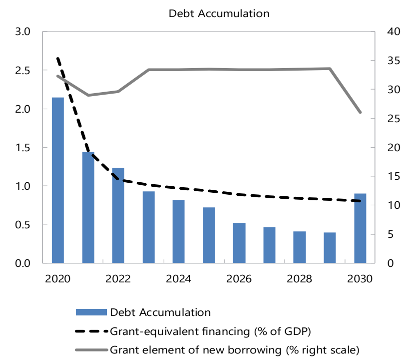
public debt-to-GDP shoots up significantly throughout all or most of the projection period as the country accumulates more debt to finance larger fiscal and current account deficits. A significant contingent liabilities shock (to state-owned enterprises) would increase debt levels notably, though such risks are difficult to quantify exactly due to lack of good data on SOEs and PPPs. Such scenarios highlight the risks to debt sustainability faced by the authorities in the absence of needed policy reforms.

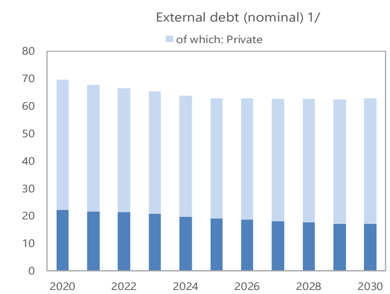
Table 1. Moldova: External Debt Sustainability Framework, Baseline Scenario, 2019–2040

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	62.8	69.6	67.6	66.5	65.3	63.8	62.7	62.9	66.8	70.0	64.4
of which: public and publicly guaranteed (PPG)	15.7	22.1	21.5	21.4	20.7	19.7	19.0	17.1	16.4	19.4	19.4
Change in external debt	-3.6	6.8	-2.0	-1.1	-1.2	-1.5	-1.0	0.4	-0.4		
Identified net debt-creating flows	1.6	11.3	6.4	6.1	4.8	3.7	3.0	1.8	0.2	-0.3	4.2
Non-interest current account deficit	9.3	9.9	11.0	10.4	9.2	8.1	7.2	6.0	4.5	7.0	8.0
Deficit in balance of goods and services	24.8	24.6	26.4	25.8	24.6	23.4	22.5	20.0	18.4	28.5	22.9
Exports	30.5	29.3	32.2	32.4	32.7	32.8	32.5	32.2	31.5		
Imports	55.3	54.0	58.6	58.2	57.3	56.2	55.0	52.2	50.0		
Net current transfers (negative = inflow)	-10.1	-9.2	-9.6	-9.4	-9.4	-9.4	-9.3	-10.2	-10.5	-13.9	-9.6
of which: official	-1.2	-1.2	-1.2	-0.9	-0.9	-0.9	-0.8	-0.7	-0.4		
Other current account flows (negative = net inflow)	-5.3	-5.6	-5.8	-5.9	-6.0	-6.0	-6.0	-3.8	-3.5	-7.5	-5.4
Net FDI (negative = inflow)	-4.6	-1.0	-2.6	-2.5	-2.6	-2.6	-2.5	-2.5	-2.5	-2.8	-2.4
Endogenous debt dynamics 2/	-3.1	2.5	-2.1	-1.9	-1.8	-1.8	-1.8	-1.7	-1.8	-4.5	-1.4
Contribution from nominal interest rate	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6		
Contribution from real GDP growth	-2.2	2.0	-2.6	-2.4	-2.4	-2.3	-2.3	-2.2	-2.4		
Contribution from price and exchange rate changes	-1.3	...	...	...	...	...	...	...	...		
Residual 3/	-5.2	-4.5	-8.4	-7.1	-6.0	-5.2	-4.0	-1.4	-0.6	-1.9	-4.2
of which: exceptional financing	-0.3	-2.7	-1.3	-1.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	11.9	15.0	14.9	14.9	14.8	14.5	14.2	13.0	13.8		
PV of PPG external debt-to-exports ratio	38.9	51.0	46.4	46.1	45.1	44.2	43.8	40.5	43.8		
PPG debt service-to-exports ratio	5.8	6.4	5.0	4.6	4.9	5.8	4.9	4.0	8.1		
PPG debt service-to-revenue ratio	6.1	6.5	5.3	5.0	5.4	6.4	5.4	4.4	8.6		
Gross external financing need (Million of U.S. dollars)	3247.1	3611.7	3733.8	3944.1	4042.0	4206.3	4360.0	5713.9	11254.7		
Key macroeconomic assumptions											
Real GDP growth (in percent)	3.6	-3.0	4.1	3.8	3.8	3.8	3.8	3.8	3.8	4.3	3.2
GDP deflator in US dollar terms (change in percent)	2.1	-3.2	5.4	4.3	3.5	3.5	3.1	1.9	1.9	4.4	2.4
Effective interest rate (percent) 4/	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	1.0	1.1	0.8
Growth of exports of G&S (US dollar terms, in percent)	5.8	-9.9	20.5	9.0	8.5	7.7	5.9	5.6	5.6	8.8	6.3
Growth of imports of G&S (US dollar terms, in percent)	3.6	-8.4	19.2	7.4	5.9	5.3	4.7	4.7	5.6	7.0	5.2
Grant element of new public sector borrowing (in percent)	...	32.3	29.0	29.6	33.4	33.4	33.5	26.0	13.5	...	31.9
Government revenues (excluding grants, in percent of GDP)	29.2	28.5	30.1	29.8	29.8	29.7	29.7	29.7	29.7	29.2	29.6
Aid flows (in Million of US dollars) 5/	115.0	164.2	123.4	80.6	87.7	95.5	103.8	134.7	187.8		
Grant-equivalent financing (in percent of GDP) 6/	...	2.6	1.5	1.1	1.0	1.0	0.9	0.8	0.6	...	1.1
Grant-equivalent financing (in percent of external financing) 6/	...	37.4	39.4	35.9	40.6	41.0	41.4	34.7	23.2	...	40.0
Nominal GDP (Million of US dollars)	11,956	11,221	12,312	13,325	14,315	15,373	16,450	21,823	38,407		
Nominal dollar GDP growth	5.7	-6.1	9.7	8.2	7.4	7.4	7.0	5.8	5.8	9.0	5.7
Memorandum items:											
PV of external debt 7/	58.9	62.5	61.0	60.1	59.3	58.6	57.9	58.8	64.2		
In percent of exports	193.0	213.1	189.3	185.2	181.1	178.3	178.2	182.7	203.7		
Total external debt service-to-exports ratio	73.5	79.7	67.9	66.8	66.0	66.5	66.9	70.4	86.6		
PV of PPG external debt (in Million of US dollars)	1420.9	1677.7	1839.1	1990.6	2114.5	2231.2	2342.4	2846.3	5306.7		
(PVt-PVt-1)/GDPt-1 (in percent)		2.1	1.4	1.2	0.9	0.8	0.7	0.9	0.0		
Non-interest current account deficit that stabilizes debt ratio	12.8	3.1	13.1	11.5	10.5	9.6	8.3	5.6	4.9		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

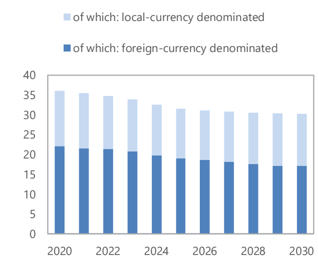
Table 2. Moldova: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2040

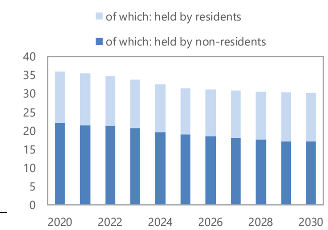
(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	27.9	36.0	35.4	34.7	33.8	32.5	31.5	30.3	30.5	30.7	32.4
of which: external debt	15.7	22.1	21.5	21.4	20.7	19.7	19.0	17.1	16.4	19.4	19.4
Change in public sector debt	-2.7	8.1	-0.6	-0.8	-0.9	-1.3	-1.0	-0.1	0.1		
Identified debt-creating flows	-1.4	8.1	-0.1	-0.5	-0.4	-0.5	-0.5	0.0	0.1	-0.6	0.5
Primary deficit	0.7	6.0	2.4	1.6	1.4	1.1	1.0	1.0	1.0	0.8	1.7
Revenue and grants	30.0	29.0	30.6	30.1	30.0	30.0	30.0	30.0	29.9	30.6	30.0
of which: grants	0.8	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3		
Primary (noninterest) expenditure	30.6	35.1	33.1	31.7	31.4	31.1	31.0	31.0	31.0	31.4	31.7
Automatic debt dynamics	-2.0	2.2	-2.5	-2.0	-1.7	-1.6	-1.5	-1.0	-1.0		
Contribution from interest rate/growth differential	-1.3	1.1	-1.5	-1.6	-1.4	-1.4	-1.3	-1.1	-1.0		
of which: contribution from average real interest rate	-0.3	0.2	-0.1	-0.3	-0.1	-0.1	-0.1	0.1	0.2		
of which: contribution from real GDP growth	-1.1	0.9	-1.4	-1.3	-1.3	-1.2	-1.2	-1.1	-1.1		
Contribution from real exchange rate depreciation	-0.7	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.8	0.0
Privatization receipts (negative)	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-1.3	1.1	-1.5	-0.7	-0.8	-1.1	-0.7	0.0	0.0	0.0	-0.4
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	23.8	28.9	28.6	28.0	27.6	27.1	26.5	26.0	27.8		
PV of public debt-to-revenue and grants ratio	79.4	99.6	93.5	93.2	92.0	90.4	88.4	86.8	92.8		
Debt service-to-revenue and grants ratio 3/	11.2	26.3	22.7	24.5	24.2	25.8	25.1	25.3	27.0		
Gross financing need 4/	4.0	13.6	9.3	8.9	8.6	8.8	8.5	8.6	9.1		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	3.6	-3.0	4.1	3.8	3.8	3.8	3.8	3.8	3.8	4.3	3.2
Average nominal interest rate on external debt (in percent)	1.6	1.2	1.1	1.2	1.1	1.1	1.1	1.2	2.6	1.3	1.2
Average real interest rate on domestic debt (in percent)	-1.8	1.3	0.6	-0.9	0.3	0.4	0.3	1.5	0.4	-2.6	0.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.3	...	...	...	...	...	...	...	...	-2.4	...
Inflation rate (GDP deflator, in percent)	6.7	4.2	6.3	8.0	6.7	6.5	6.6	5.0	5.0	9.0	5.8
Growth of real primary spending (deflated by GDP deflator, in percent)	3.8	11.0	-1.8	-0.7	2.9	2.9	3.4	3.8	3.8	0.9	3.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.4	-2.1	3.0	2.4	2.2	2.5	2.1	1.1	1.0	3.1	1.5
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–2030

(In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	PV of debt-to GDP ratio										
Baseline	15	15	15	15	15	14	14	14	13	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	15	12	10	8	7	6	6	6	7	7	8
B. Bound Tests											
B1. Real GDP growth	15	16	16	16	16	16	15	15	15	14	14
B2. Primary balance	15	15	15	15	15	15	14	14	14	13	14
B3. Exports	15	20	28	27	27	26	25	24	23	21	21
B4. Other flows 3/	15	17	20	20	19	19	18	18	17	16	16
B5. Depreciation	15	19	13	13	13	12	12	12	12	12	13
B6. Combination of B1-B5	15	21	22	21	21	20	20	19	18	17	17
C. Tailored Tests											
C1. Combined contingent liabilities	15	17	18	18	19	19	19	19	19	18	19
Threshold	55	55	55	55	55	55	55	55	55	55	55
	PV of debt-to-exports ratio										
Baseline	51	46	46	45	44	44	43	42	41	40	41
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	51	38	30	24	21	19	19	19	20	22	26
B. Bound Tests											
B1. Real GDP growth	51	46	46	45	44	44	43	42	41	40	41
B2. Primary balance	51	47	47	46	45	45	45	44	43	42	42
B3. Exports	51	79	124	120	117	116	113	107	101	96	93
B4. Other flows 3/	51	54	61	60	58	58	56	54	52	50	49
B5. Depreciation	51	46	31	31	31	30	30	30	30	30	32
B6. Combination of B1-B5	51	74	61	76	74	73	71	68	65	63	62
C. Tailored Tests											
C1. Combined contingent liabilities	51	53	55	56	57	58	58	58	57	57	58
Threshold	240	240	240	240	240	240	240	240	240	240	240
	Debt service-to-exports ratio										
Baseline	6	5	5	5	6	5	4	4	4	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	6	5	4	5	5	4	3	3	2	2	2
B. Bound Tests											
B1. Real GDP growth	6	5	5	5	6	5	4	4	4	4	4
B2. Primary balance	6	5	5	5	6	5	4	4	4	4	4
B3. Exports	6	6	7	8	10	8	9	11	11	11	10
B4. Other flows 3/	6	5	5	5	6	5	5	6	5	5	5
B5. Depreciation	6	5	5	5	6	5	4	3	3	3	3
B6. Combination of B1-B5	6	6	6	7	8	7	7	7	7	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	6	5	5	5	6	5	5	5	5	5	4
Threshold	21	21	21	21	21	21	21	21	21	21	21
	Debt service-to-revenue ratio										
Baseline	7	5	5	5	6	5	5	5	5	5	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	7	5	5	5	6	5	3	3	2	2	2
B. Bound Tests											
B1. Real GDP growth	7	6	5	6	7	6	5	5	5	5	5
B2. Primary balance	7	5	5	5	6	5	5	5	5	5	5
B3. Exports	7	5	5	6	7	6	7	8	8	8	7
B4. Other flows 3/	7	5	5	6	7	6	6	6	6	6	6
B5. Depreciation	7	7	6	6	8	6	6	4	4	4	4
B6. Combination of B1-B5	7	6	6	6	7	6	7	7	6	6	6
C. Tailored Tests											
C1. Combined contingent liabilities	7	5	5	6	7	6	5	5	5	5	5
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Moldova: Sensitivity Analysis for Key Indicators of Public Debt 2020–2030

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	29	29	28	28	27	27	26	26	26	26	26
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	29	26	25	24	23	21	21	20	19	18	18
B. Bound Tests											
B1. Real GDP growth	29	31	35	37	38	40	41	43	45	47	49
B2. Primary balance	29	29	29	29	28	27	27	27	27	27	27
B3. Exports	29	33	40	39	38	37	37	36	35	34	33
B4. Other flows 3/	29	31	33	32	32	31	31	30	29	29	29
B5. Depreciation	29	30	27	26	24	22	20	18	16	15	14
B6. Combination of B1-B5	29	28	28	27	26	26	26	25	25	25	25
C. Tailored Tests											
C1. Combined contingent liabilities	29	40	38	37	36	35	35	34	34	33	33
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	100	93	93	92	90	88	88	87	87	87	87
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	100	86	83	79	75	71	69	66	63	61	59
B. Bound Tests											
B1. Real GDP growth	100	102	115	122	127	132	138	144	150	156	162
B2. Primary balance	100	95	97	96	94	92	91	90	89	89	89
B3. Exports	100	109	133	130	128	125	122	119	115	112	110
B4. Other flows 3/	100	102	109	108	106	103	102	100	98	97	96
B5. Depreciation	100	99	91	85	79	72	66	60	55	50	46
B6. Combination of B1-B5	100	92	93	90	88	86	85	85	84	84	84
C. Tailored Tests											
C1. Combined contingent liabilities	100	129	127	124	121	117	115	114	113	112	111
Debt Service-to-Revenue Ratio											
Baseline	26	23	24	24	26	25	25	24	24	25	25
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	26	22	21	20	21	20	19	19	18	18	18
B. Bound Tests											
B1. Real GDP growth	26	24	29	32	37	39	41	42	44	46	48
B2. Primary balance	26	23	25	26	27	26	26	25	25	25	26
B3. Exports	26	23	25	25	26	26	27	27	27	28	28
B4. Other flows 3/	26	23	25	24	26	25	26	25	25	26	26
B5. Depreciation	26	22	24	22	25	24	24	23	22	22	22
B6. Combination of B1-B5	26	22	24	24	26	25	24	24	24	24	25
C. Tailored Tests											
C1. Combined contingent liabilities	26	23	42	38	39	35	33	31	30	29	29

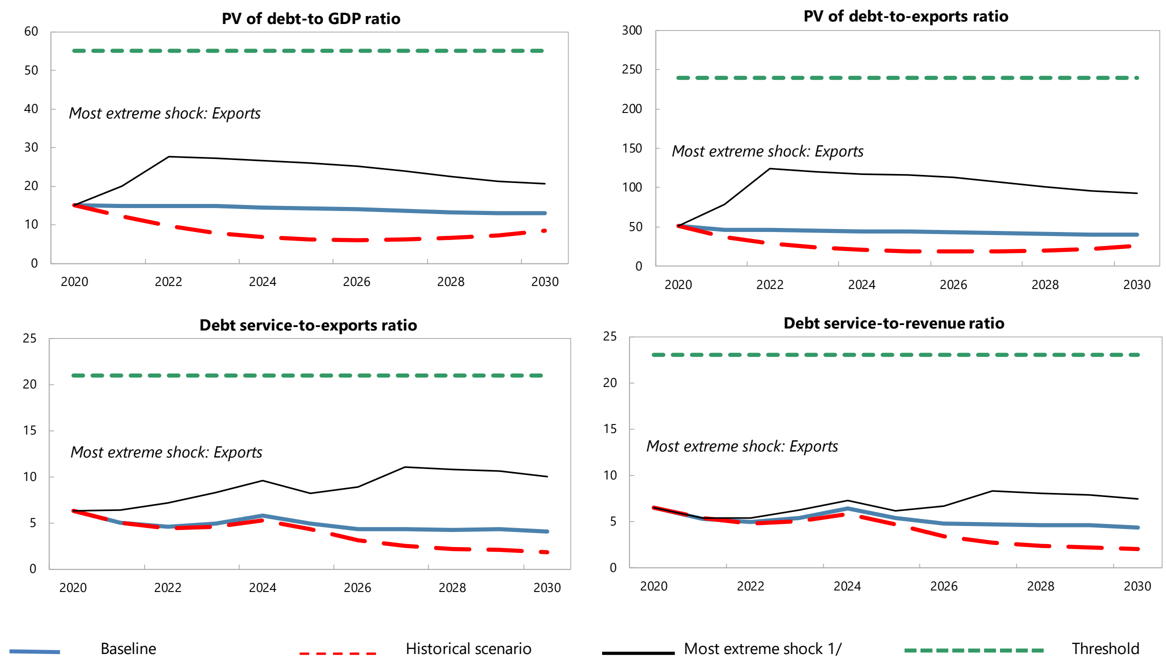
Sources: Country authorities; and staff estimates and projections.

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

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 1. Moldova: Indicators of Public Guaranteed External Debt Under Alternatives Scenarios, 2020–2030



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

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

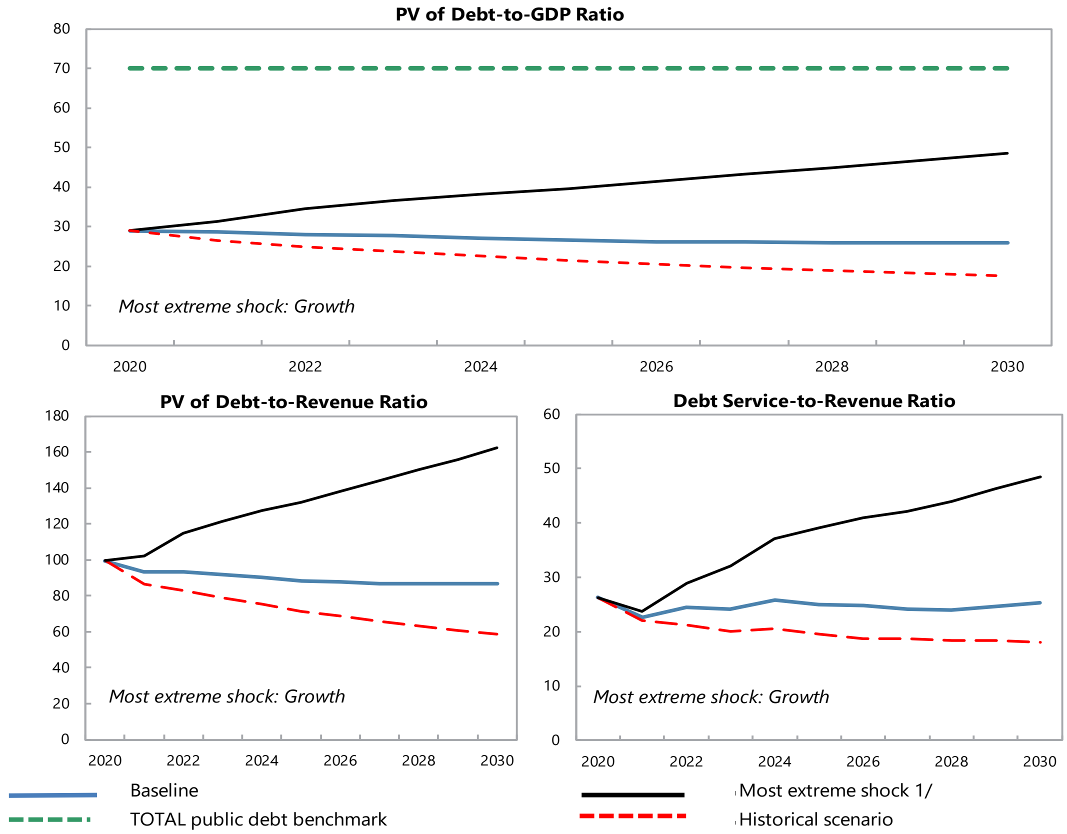
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	19	19
Avg. grace period	4	4

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Moldova: Indicators of Public Debt Under Alternative Scenarios, 2020–2030



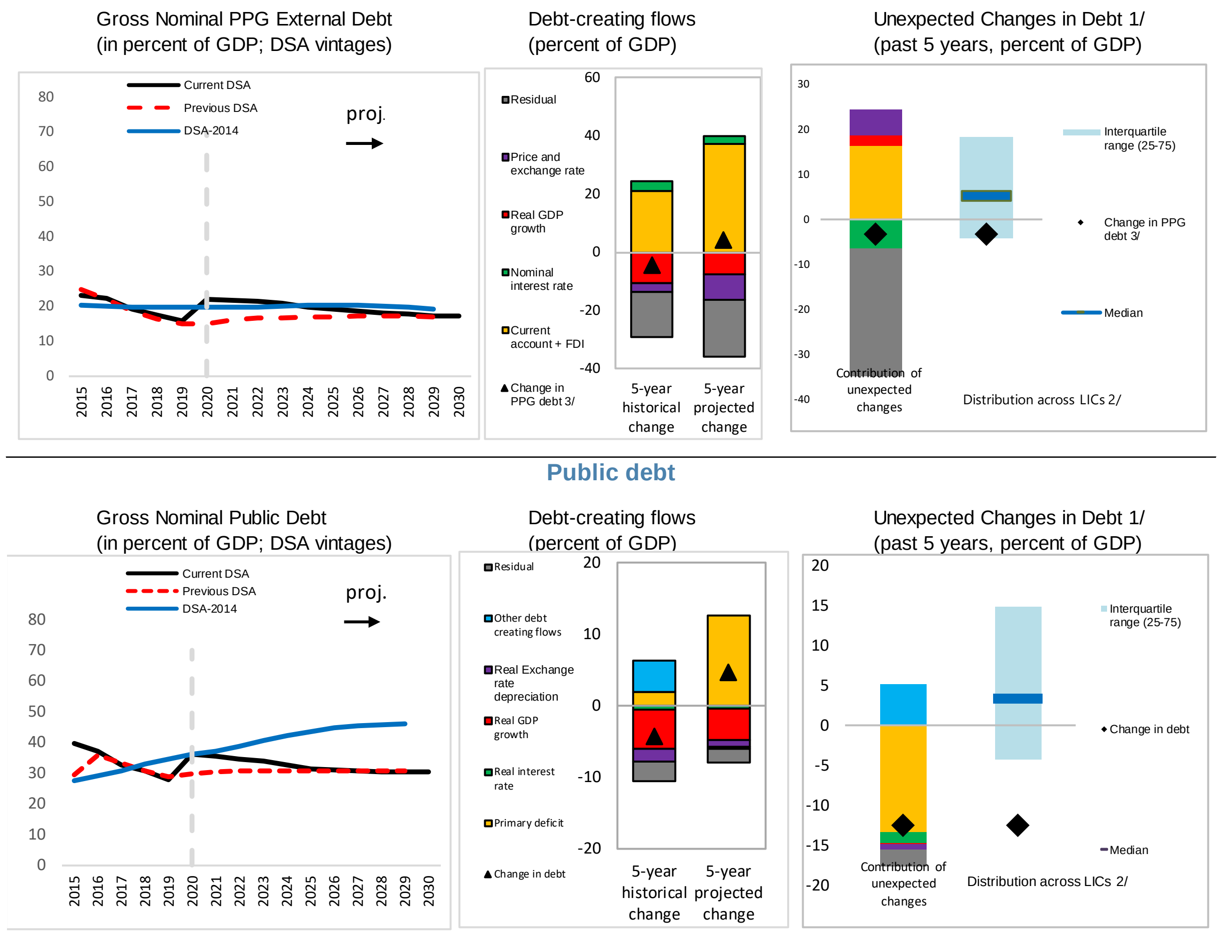
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	28%	28%
Domestic medium and long-term	31%	31%
Domestic short-term	41%	41%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	19	19
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.7%	1.7%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	1.2%	1.2%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



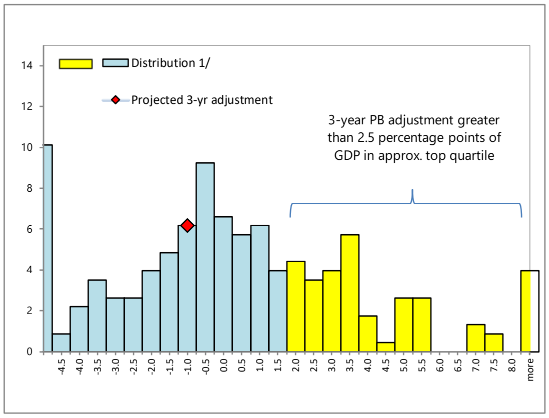
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

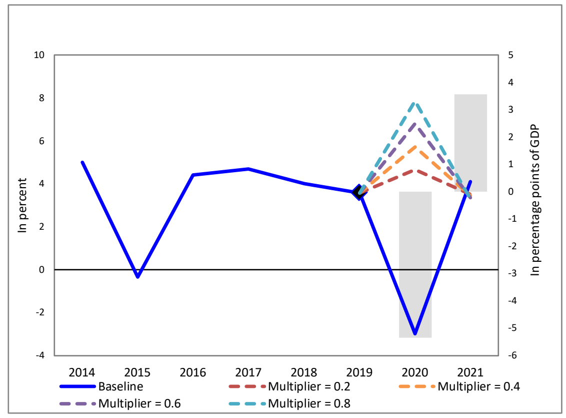
Figure 4. Moldova: Realism Tools

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



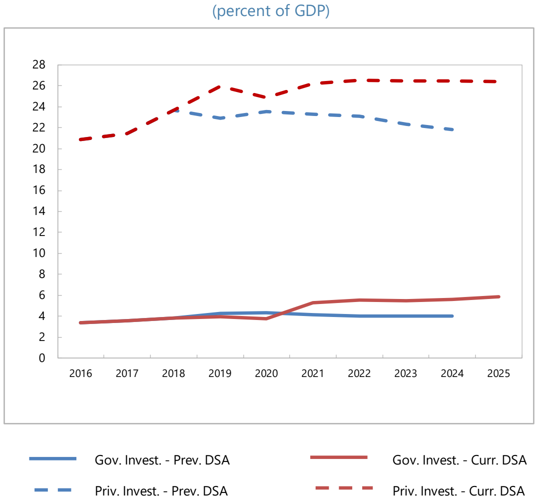
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

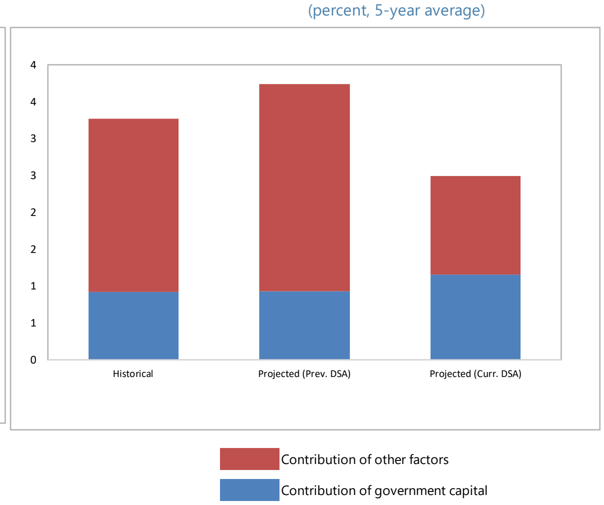


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



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



Appendix I. Letter of Intent

Ms. Kristalina Georgieva Chişinău, April 10, 2020
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431 USA

Dear Ms. Georgieva:

1. The coronavirus pandemic has inflicted enormous economic and social costs on our economy and people. Our healthcare system is under severe pressure, with an urgent need for essential medical gear, equipment, and testing supplies. We are fighting the virus on multiple fronts, with many sectors having to stand still to choke its spread. While uncertainty remains high, we anticipate a deep recession. Public finances have come under significant strains due to plummeting tax and customs revenues and surging crisis-related healthcare and social assistance outlays. Plunging remittances, exports, and capital inflows, only partly offset by import compression, have created sizable BOP financing needs.

2. Notwithstanding the negative and uncertain economic outlook, we are keenly aware of the need to preserve fiscal discipline, ensure debt sustainability, and maintain a transparent and sound policy setting. Our concerted efforts, with the financial and technical support of our international partners, will be critical to preserving confidence and financial stability, safeguarding employment, protecting the vulnerable and unemployed, and promoting a broad-based and inclusive recovery. The crisis has necessitated urgent and significant recalibration of our near-term fiscal plans. In mid-April and in consultation with the IMF staff, the government adopted the 2020 amended budget which we expect to be expeditiously approved by parliament. We stand ready to review our spending plans and adopt an additional supplementary budget in the autumn, particularly if the outlook deteriorates or external financing risks materialize. Our policy actions include:

- *Support to businesses*, especially for entities and entrepreneurs affected by state-imposed restrictions. These measures include temporary labor tax reimbursement subsidies and tax deferral, expedited input VAT refunds, self-employed patent fee and late payment penalty waivers, and SME on-lending programs via commercial banks. We have imposed a moratorium on all tax audits and other state controls for the period of the national state of emergency and introduced a deduction for donations to the state for combating COVID-19.

- *Social protection measures,* such as expanding the access of unemployment benefits, including to returning migrant workers and those without prior employment record, and strengthening existing targeted social assistance and employment programs, backed up by significant increase in state budget allocation.

- *Health sector and contingency measures,* pledging equal access and increased virus-related health spending, as well as allocating additional funds to prepare the health system for a potentially more severe outbreak in line with cost estimates provided by the World Health Organization.

- *Public financial management* measures include strong coordination with local governments, contingency planning and increased allocations to state intervention funds.

3. We are committed to implementing strong control, audit, reporting, and transparency requirements with regards to crisis-related government spending, including by publishing information on associated public procurement and beneficial owners of companies contracting with the government as well as continuing to enforce the AML framework and asset declaration regime. We will subject all crisis-mitigation spending to a dedicated audit by the Court of Accounts Chamber and commit to making the audit report public.

4. Our financial system entered this crisis on a strong footing. The final review of the recently completed IMF-supported program marked the finalization of comprehensive multi-year banking sector reforms. Our banking system's capital adequacy and liquidity indicators remain strong, thereby providing a comfortable cushion against severe loan losses and liquidity strains. The National Bank of Moldova (NBM) and the National Commission for Financial Markets (NCFM) took measures aimed at supporting the economy, easing liquidity conditions, and enhancing financial system resilience.

- Our immediate objective is to preserve financial sector stability by ensuring transparent asset quality recognition, prudent loan loss provisioning, and facilitating sound restructuring practices. To enhance monitoring of bank solvency and liquidity, the NBM will ensure rigorous monitoring of prudential compliance, related-party exposures, cross-border transactions, and ML/TF suspicious activities and transactions.

- The NBM will step up cooperation efforts, including across jurisdictions, to identify emerging problems early on and will take coordinated preventive action, if needed. It will also seek out bank parents' commitments against credit and capital retrenchment should domestic banks' stability or capital come under pressure. It will also exercise its supervisory powers towards capital preservation, including dividend payout and share buyback restrictions.

- To mitigate risks in the nonbank financial sector, given its sizable individual and SME credit market footprint, we are recommending voluntary reductions in interest rates and payment deferrals on loans through the end of June. The supervisor will strictly supervise all deferred exposures and ensure transparent asset quality recognition.

5. We are committed to safeguard the central bank's independence and allow exchange rate flexibility to help facilitate necessary macroeconomic adjustment to the shock, with the NBM using its foreign currency reserves judiciously to counter disorderly market pressures and excessive exchange rate volatility.

6. In line with IMF safeguards policy, we commit to undergo a safeguards assessment update prior to approval of any subsequent IMF arrangement, such as a follow-up ECF/EFF. The Ministry of Finance and the NBM will update the Memorandum of Understanding on their respective roles and responsibilities for servicing financial obligations to the IMF.

7. Moldova will comply with the provisions of the IMF's Articles of Agreement. We commit not to introduce or intensify exchange and trade restrictions and other measures or policies that would compound balance of payments difficulties.

8. Looking beyond this immediate crisis, we aim to continue our engagement with the IMF and plan to reach agreement on a new multi-year arrangement to address Moldova's structural challenges. Key priorities include to strengthen the rule of law and reform the judiciary and public sector enterprise sectors, including by increasing transparency, strengthening oversight and governance, and enhancing public sector institutional capacity. These reforms will help us achieve our poverty reduction and growth objectives.

9. We hereby request IMF assistance under the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) in the amount of SDR 172.5 million (100 percent of quota) to address Moldova's urgent balance-of-payment and fiscal needs in support of our emergency crisis response. We trust that the policies set out in this letter are satisfactory to achieve our objective of economic stabilization, but we stand ready to implement additional measures to preserve macroeconomic and social stability. We will consult with the Fund on any revisions to the policies outlined in this letter. We will provide information requested by the Fund to assess our policy implementation. Maintaining our commitment to the policy of transparency, we consent to the publication of this letter and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

/s/

Ion Chicu
Prime Minister, Government
of the Republic of Moldova

/s/

Serghei Răilean
Minister of Economy and
Infrastructure

/s/

Serghei Pușcuța
Minister of Finance,
Vice-Prime Minister

/s/

Octavian Armaşu
Governor
National Bank of Moldova

Statement by Anthony De Lannoy, Executive Director for the Republic of Moldova, and Jesper Hanson, Advisor to the Executive Director
April 17, 2020

The COVID-19 pandemic deeply affects the Moldovan economy. The crisis resulted in an urgent external financing need and an increased demand for budgetary resources to fight the pandemic and mitigate its social and economic consequences. The Moldovan authorities request access to a blended RCF/RFI arrangement under the exogenous shock window for an amount of SDR 172.5 million (100 percent of quota). The requested arrangement will be crucial to help close the external and fiscal financing gaps.

On behalf of the Moldovan authorities, we would like to express our appreciation to Mission Chief Mr. Ruben Atoyan and his team for their efforts to bring this program to the Board in a short timeframe. The authorities wish to thank staff for the insightful report and for the very helpful policy dialogue during the virtual mission.

COVID-19 in Moldova

Just over a month ago, on March 11, Moldova successfully completed the sixth and final review of the ECF and EFF arrangements. Four days earlier, on March 7, the first COVID-19 case was reported in Moldova. The number of confirmed cases currently exceeds 1,900 on a population of 3.5 million.

The Government of Moldova responded swiftly to contain the outbreak by declaring a State of Emergency on March 17. All stores (other than grocery stores, pharmacies, gas stations and limited agricultural supply stores), schools and public venues are closed. Flights to Chisinau Airport, international train and bus routes are all suspended.

The pandemic has inflicted enormous economic and social costs on Moldova.

- **The health system is under severe pressure.** Hospitals urgently need essential medical gear, equipment and testing supplies to fight COVID-19.

- **Domestic and external demand has come to a halt.** The lockdown led to a sharp decline in domestic demand, while the global nature of the pandemic resulted in a decline in exports. Real GDP is expected to decline by -3 percent, almost 7 percentage points below the pre-COVID baseline.

- **Remittances fell sharply.** The secondary income balance is expected to decline by 4.8 percent of GDP relative to the pre-COVID baseline as Moldovans employed abroad are losing income. Substantial import compression compensated for the combined effect of the decline in exports and remittances. As a result, the current account slightly improves in dollar terms.

- **Financial inflows are stalling.** Staff estimates a decline in the inflow on the capital and financial balance, which contributes to external financing needs of 7.7 percent of GDP.

The RCF/RFI would provide much needed budget support and help to close the external financing gap.

The RCF/RFI will help to close the external financing gap. Other contributions to closing the external financing gap are the careful use of existing reserves, which stood at 169 percent of the ARA metric prior to the crisis, official bilateral financing from Russia, emergency financing under the World Bank's Fast-Track Facility for health and social needs, and a loan from the Council of Europe Development Bank. Given the need for budgetary resources to mitigate the impact of COVID-19, the authorities intend to use the support for budgetary financing based on the modalities of the Memorandum of Understanding between the Ministry of Finance and the NBM.

The government is taking targeted fiscal measures to address the crisis.

The fiscal balance is expected to deteriorate by 3.3 percent relative to the pre-COVID baseline due to a decline in revenues, resulting in an estimated budget deficit of 6.9 percent. Reprioritization of government spending yields savings of 2.0 percent of GDP which are used for targeted measures, for which the government adopted an amended budget:

- The authorities plan to **increase health care spending** by 0.6 percent of GDP for much needed investments in medical equipment.

- The authorities are taking measures to **support people and businesses**, including through extended access to unemployment benefits, strengthening targeted social assistance, temporary labor tax reimbursement subsidies and tax deferral. These measures jointly amount to 1.4 percent of GDP.

The NBM works to preserve financial sector stability and support the economy.

The ECF/EFF arrangements involved a successful rehabilitation of the banking sector, which is currently well-capitalized and liquid. The NBM will take the following measures to stabilize the financial sector and the economy:

- **The NBM lowered the policy rate** by 1.0 percentage points on March 4 and by another 1.25 percentage points on March 20 to a level of 3.25 percent to support the economy.

- **The NBM adjusted reserve requirements to stem dollarization and ease liquidity conditions.** They decreased the required reserve ratio in local currency cumulatively by 7 percentage points at the extraordinary meetings on monetary policy on March 20 and April 3, and increased the FX required reserve ratio by 1.0 percentage points.

- **The flexible exchange rate serves as first line of defense**, but the NBM stands ready to intervene to counter excessive exchange rate volatility if needed.

- **The NBM approved decisions by which it provides flexibility to banks to offer loan service holidays to individuals or postpone/renegotiate payment schedules**. More targeted exemptions are applied to corporations. The NBM will enhance monitoring of bank solvency and liquidity, including prudential compliance, related-party exposures, cross-border transactions and ML/TF suspicious transactions.

- **The NBM recommended banks to refrain from distribution of dividends to shareholders and share buybacks**, at least until September 30, 2020, and to consider limiting variable remuneration schemes and bonuses payouts, as well as real estate investments, in order to maintain a strong level of capitalization and liquidity. In addition, the NBM has allowed banks to use the previously accumulated capital conservation buffer of 2.5%, as needed, to counter the potential decline in portfolio quality and preserve on-lending activities.

In addition, the National Commission for Financial Markets recommended nonbank credit organizations to voluntarily lower interest rates and allow payment deferrals, as well as to refrain from dividend payouts.

The authorities make specific commitments to ensure crisis-related expenditures are subject to strong budgetary procedures. The independent Court of Accounts Chamber will perform an audit of all crisis-mitigation spending, which will be made public. The authorities will also publish information on associated public procurement and beneficial owners of companies contracting with the government. They commit to subject their crisis response to strong control, audit, reporting and transparency requirements.

The authorities intend to continue their engagement with the IMF. The current crisis requires their full attention, but the authorities recognize that deep structural challenges persist in the Moldovan economy. Once the crisis subsides, they will continue discussions on a new arrangement focusing on strengthening the rule of law and improving governance frameworks.