INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/6

# REPUBLIC OF MOLDOVA

January 2023

## SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, AND REQUEST FOR WAIVER OF APPLICABILITY FOR PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF MOLDOVA

In the context of the Second Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements, and Request for Waiver of Applicability for Performance Criteria, 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 January 9, 2023, following discussions that ended on November 29, 2022, with the officials of Republic of Moldova on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility and Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on December 19, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Republic of Moldova.

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

Poverty Reduction Strategy Paper

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

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**International Monetary Fund**
**Washington, D.C.**

# IMF Executive Board Concludes Second Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements for the Republic of Moldova

**FOR IMMEDIATE RELEASE**

- *The IMF Executive Board completed the second review under the 40-month Extended Credit Facility and the Extended Fund Facility (ECF/EFF) arrangements with Moldova, providing the country with access to SDR 20.65 million (about US$27 million).*
- *Spillovers from Russia's invasion of Ukraine continue to weigh heavily on Moldova, with disruptions of energy supply putting additional pressure on the Moldovan economy.*
- *The program has helped the authorities respond to multiple shocks in an agile and comprehensive way. Continued progress on governance reforms helps foster resilience, while creating a solid foundation for strong and inclusive growth.*

**Washington, DC – January 9, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the second review under the 40-month Extended Credit Facility (ECF) and Extended Fund Facility (EFF) Arrangements[1] for the Republic of Moldova.[2] This allows for the immediate disbursement of SDR 20.65 million (about US$27 million), usable for budget support, bringing Moldova's total disbursements under the blended ECF/EFF arrangements to SDR 206.6 million (about US$275 million).

Moldova's outlook remains fraught with challenges. The economy is projected to contract by 1.5 percent in 2022, followed by a modest recovery of 1.5 percent in 2023 due to the protracted impact of Russia's war against Ukraine and the worsening outlook of Moldova's main trading partners. Inflation is estimated to have peaked but remains high at 31.4 percent in November (year-on-year). The fiscal deficit is projected to widen to 6 percent of GDP next year, reflecting policies to counter the cost-of-living and energy crises, while the current account deficit continues to be driven by higher costs of energy imports. Risks to the outlook are high and firmly tilted to the downside, including risks of further escalation of Russia's war against Ukraine. Moldova's program implementation remains strong despite the difficult environment, with completion of important program commitments in the areas of fiscal and financial governance, and reforms of the state-owned enterprises (SOEs) sector.

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

"Spillovers from Russia's invasion of Ukraine continued to weigh heavily on Moldova. Disruption in energy supply is putting additional pressures on the economy, while the hardship from high energy and food prices is contributing to a deterioration of living standards of the

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

[2] The 40-month ECF/EFF arrangements were approved in December 2021 (Press Release) and augmented in May 2022 to increase total access under the arrangements to SDR 594.26 million (Press Release).

vulnerable. As a result, the outlook for the Moldovan economy is weaker than projected at the time of the first review.

``Despite these challenges, the authorities remain firmly committed to the Fund-supported program, which aims to support the vulnerable while advancing governance reforms and addressing developmental needs to create conditions for sustainable and inclusive growth. The authorities have successfully completed structural commitments on public investment management, the SOE sector reforms, and financial sector governance. The reform agenda under the program was further strengthened with the proposal of six new structural benchmarks to guide implementation of reform priorities.

``The Fund-supported program has helped catalyze significant external financing to help Moldova bridge immediate financing needs. As risks remain high and the outlook is subject to extreme uncertainty, maintaining a strong policy momentum will be critical to secure additional grant and concessional financing from donors, needed to withstand the shocks, reduce reliance on expensive short-term domestic financing, and preserve fiscal sustainability. Continued reform implementation will also help Moldova create a solid foundation for strong and inclusive growth.

``The authorities' near-term policy priorities are appropriately focused on safeguarding energy security, protecting the most vulnerable from the cost-of-living crisis, and preserving macro-financial stability. Going forward, maintaining an appropriate policy mix will be critical to withstand downside risks, should they materialize, while pursuing longer-term developmental objectives. Continued efforts are needed to improve spending efficiency, foster budget credibility, and mobilize domestic revenue. Reforming the SOE sector needs to be accelerated to improve efficiency and contain fiscal risks, while broader governance, judicial and anti-corruption reforms would support growth.

``While the revised inflation outlook warrants carefully calibrated easing of monetary policy stance, exceptionally high uncertainty calls for continued vigilance. The adoption of the law aiming to strengthen the institutional autonomy and governance of the National Bank of Moldova (NBM) is welcome. Safeguarding the independence of the NBM is essential to reinforce its credibility and strengthen policy effectiveness."

INTERNATIONAL MONETARY FUND

# REPUBLIC OF MOLDOVA

December 19, 2022

## SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, AND REQUEST FOR WAIVER OF APPLICABILITY FOR PERFORMANCE CRITERIA

## EXECUTIVE SUMMARY

**Spillovers from the Russia's invasion of Ukraine continued to weigh heavily on Moldova**. Energy supplies have been disrupted, with significant impact on Moldova, given its dependance on Russia for gas, and on the breakaway region of Transnistria for electricity. The hardship from high energy and food prices and frequent anti-government protests are weighing on Moldova's fragile social and political fabric.

**The authorities' response to the cost-of-living crisis has been agile and comprehensive.** Thanks to well-thought-out contingency plans, the authorities have secured alternative gas and electricity supplies to bridge shortfalls, although significantly higher prices are putting pressure on the budget and balances of payments. The authorities are rolling out a targeted social support program to shield vulnerable households from the cost-of-living and energy crises.

**The outlook for Moldova's economy remains challenging.** The economy is projected to contract by 1.5 percent in 2022, followed by a slower recovery in the near-term due to the protracted impact of the war and worsening outlook of Moldova's main trading partners. Monetary policy has shifted toward carefully calibrated easing. Inflation is estimated to have peaked in October and projected to decelerate more rapidly than expected at the time of the first review, amid significant deterioration in the economic outlook, tight domestic financing conditions, falling real incomes, and contracting real credit. The fiscal deficit of 4.2 percent of GDP expected in 2022 is projected to increase to 6 percent of GDP in 2023, mainly reflecting policies to counter the cost-of-living and energy crises. The current account deficit is projected to widen in 2022 driven by higher costs of energy imports. Banks have remained resilient since the onset of the war, with the capital adequacy and liquidity coverage ratios standing well above regulatory requirements. Risks to the outlook are high and firmly tilted to the downside, particularly due to risks of further escalation of the war, concerns about Moldova being drawn into the conflict, and further materialization of energy risks.

**The program remains on track, despite the challenging environment**. All end-September quantitative performance criteria and indicative targets were met. Of the two end-September structural benchmarks, one was met and the other missed but expected to be implemented in December. The inflation consultation clause for end-September was also met. Six new structural benchmarks have been proposed to guide implementation of reform priorities under the program in 2023, highlighting the authorities' continued commitment to program implementation. The authorities request a modification of indicative targets on the ceiling for general government wage bill and the floors on targeted social spending and developmental spending in 2023. They request to modify the TMU definition of the continuous ceiling on accumulation of external payments arrears to exclude external payment obligations for which the creditor has extended a payment deferral or payments are made into an escrow account due to the risks of blocking of the repayment by corresponding banks. They also request a waiver of applicability for end-December 2022 performance criteria for the second review under the EFF, given that no final data are available for assessment. There is no clear evidence that the end-December performance criteria will be missed.

**Staff supports the completion of second review under the program**. The authorities' strong ownership and firm commitment to reforms and sound crisis and economic management warrant continued Fund support.

Approved By
**Julie Kozack (EUR) and Maria Gonzalez (SPR)**

Discussions were held remotely and in person during October 31–November 29, 2022. The mission met with Prime Minister Gavrilița, Deputy Prime Minister Spinu, Minister of Finance Budianschi, Minister of Economy Gaibu, Minister of Justice Litvinenco, Minister of Labor and Social Protection Spătari, Governor of the National Bank of Moldova Armaşu, Chair of the National Commission for Financial Markets Cozlovschi, General Director of the Public Property Agency Cozonac and other senior officials and representatives of financial institutions, international organizations, and non-governmental organizations. The mission team comprised R. Atoyan (Head), A. Fouejieu, M. Marinkov, M. Patnam, S. Hassan (all EUR), C. Gomez Osorio (FAD), K. Kao (LEG), B. Nandwa (SPR), J. Podpiera (MCM), and R. Chawani (resident representative). D. Zhao and C. Piatakovas (both EUR) and staff from the local office assisted the mission.

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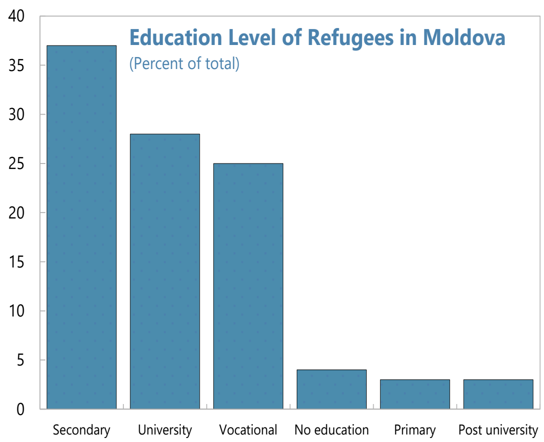
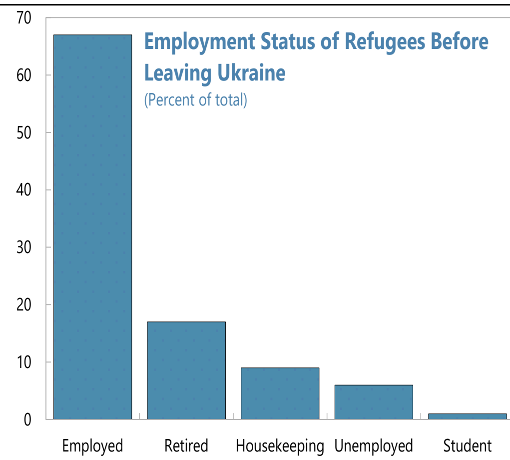
# CONTEXT AND RECENT ECONOMIC DEVELOPMENTS

1. **Moldova continues to grapple with persistent external and domestic headwinds.** The escalation of Russia's war against Ukraine and recent incidents closer to the Moldovan border, as well as Russia's continued military presence in Moldova's breakaway region of Transnistria, continue to fuel concerns about Moldova being drawn into the conflict. Nearly 700,000 Ukrainian refugees (27 percent of the Moldovan population) have transited through Moldova, with about a fifth remaining in the country posing both a challenge and an opportunity for the labor market. Hardship from high energy and food prices and the resulting increased cost of living are compromising Moldova's fragile social fabric. Frequent anti-government protests also endanger political stability.




Source: United Nation High Commissioner for Refugees



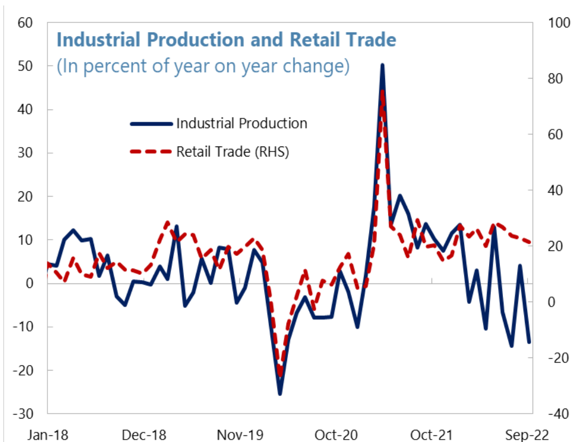

Source: United Nation High Commissioner for Refugees

2. **Disruptions in energy supply are materializing**. Gazprom reduced its supply of gas to Moldova by 30-percent in October, and the flow in November amounted to about half of the contractual volume, significantly below demand. Moldova has compensated for the lower volumes by purchases from the international market, but at significantly higher prices.[1] Electricity imports from Ukraine have stopped for the time being due to Russia's strikes on Ukraine's energy infrastructure, which also triggered electricity blackouts in Moldova. Electricity imports from Transnistria (representing more than 50 percent of Moldova's total consumption) ceased completely in November due to lack of sufficient Gazprom-supplied gas volumes required for electricity generation.[2] To bridge the shortfall, the authorities secured electricity supplies from Romania, albeit at much higher and volatile prices. As a result of pressures on energy supply, further tariff adjustments were adopted in line with cost recovery, and the regulatory framework revised to ensure closer and faster alignment to imported prices.

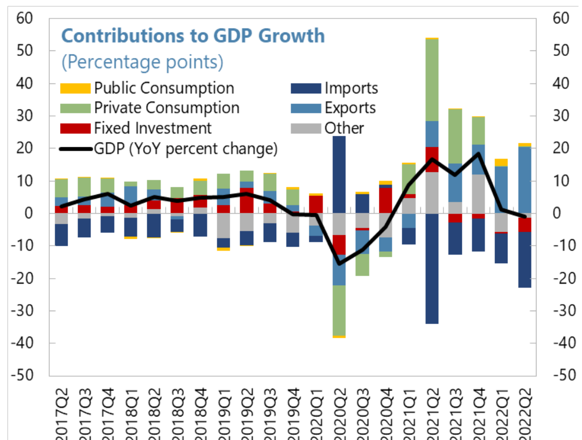
[1] Differences of views on the audit of Moldovagaz's historic debt to Gazprom, for natural gas supplied in previous years, further amplify risks of supply disruptions. The audit is a prerequisite for renegotiation of delivery volumes from Gazprom to Moldovagaz.

[2] Negotiations are ongoing and a temporary agreement (reached on December 5, 2022) for the resumption of electricity from Transnistria at favorable prices requires redirecting part of the natural gas supplied by Gazprom (to Moldovagaz) to Transnistria.

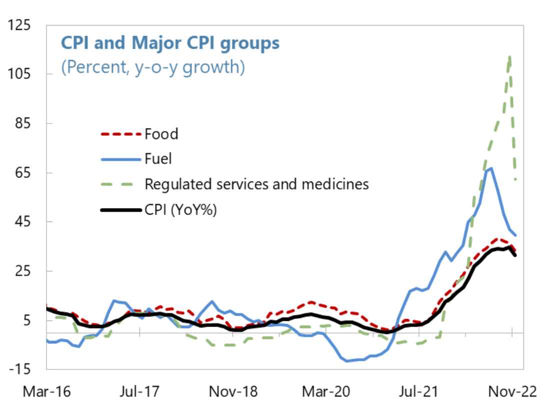
**3. The economy is projected to contract in 2022, as the fallout from the war intensifies.** Real GDP recorded zero percent growth in 2022H1, in line with staff expectations. Activity was primarily supported by higher net exports and, to a lesser extent government consumption, while investment contributed negatively to growth. Given the protracted impact of the war and materialization of risks in the energy sector, real GDP is projected to contract by 1.5 percent in 2022. High frequency indicators point to continued weakening of activity in H2. During the first three quarters of 2022, agricultural production contracted by over 18 percent (y/y), held back by less favorable weather conditions and constrained supply and higher cost of fertilizers and fuel, while investment in fixed assets declined by over 9 percent. Private consumption deteriorated further and the trade balance weakened, amid higher energy costs. Annual inflation decelerated to 31.4 percent in November (from the 34.6 percent peak in October), due to weakening aggregate demand and moderating energy prices. The unemployment rate declined to 2.4 percent in 2022Q2, while real wages contracted by over 13 percent. The general government deficit was significantly lower than budgeted, reflecting strong revenue performance (boosted by an inflationary effect on VAT) and under-execution of capital and current expenditures. The current account deficit almost doubled in 2022H1 to about US$1 billion (15 percent of GDP), driven by a sizeable trade deficit on account of high energy imports.



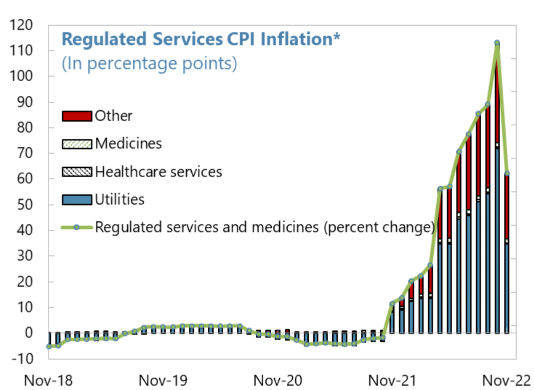

Sources: National Bureau of Statistics and IMF staff calculations.




Sources: Moldovan authorities.

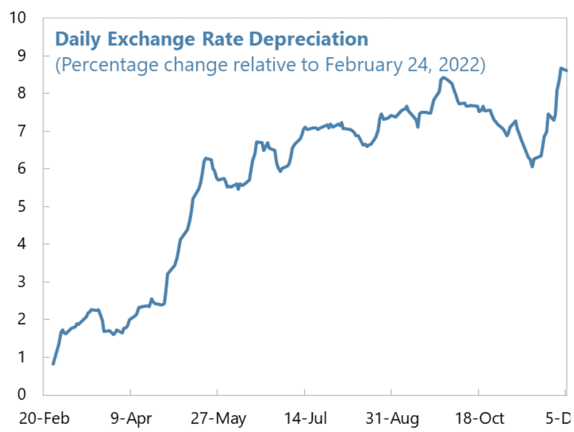



Sources: Moldovan authorities and IMF staff calculations.

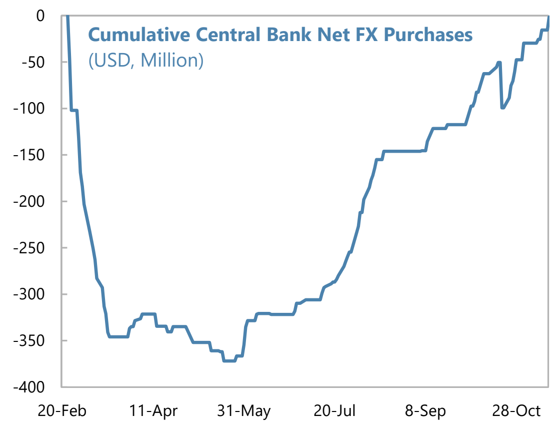



Sources: Moldovan authorities and IMF staff calculations.
* Includes medicine prices

**4. The financial sector remains resilient and pressures on the foreign exchange market have subsided.** Banks remain adequately capitalized, maintain adequate liquidity coverage and healthy asset quality. Total deposits have recovered from their drawdown at the onset of the war, while corporate deposit dollarization reverted to pre-war levels. The Moldovan leu depreciated by about 9 percent since the beginning of the war, reflecting deteriorating confidence effects and worsening external environment. However, the National Bank of Moldova (NBM) has rebuilt most of FX reserve losses incurred following the beginning of the war.



Sources: Moldovan authorities and IMF staff calculations.



Sources: NBM

# OUTLOOK AND RISKS

**5. Spillovers from the war and the gloomy global outlook are expected to have long-lasting effects on the Moldovan economy**.

- **Real GDP growth** is projected at 1.5 percent in 2023 and 4.3 percent in 2024, a weaker near-term recovery than forecasted at the time of the first review. The downward revision reflects persistent effects of the multiple crises on domestic demand, but also the weaker growth profile for Moldova's trading partners. A robust growth trajectory is projected over the medium term, boosted by a recovery of domestic consumption and investment as the impact of the war dissipates, implementation of structural reforms under the program continues, and with the progression of Moldova's EU integration process. However, medium-term scarring is estimated to be significant, with the level of real GDP expected to be about 10 percent below its pre-war forecasts in 2026.

- **Inflation** is expected to remain high in the remainder of 2022, averaging 28.5 percent for the year. The high 2022 base effect combined with weaker domestic consumption and the assumed gradual normalization of global energy and food prices will contribute to ease inflationary pressures in 2023. Inflation is projected to fall within the central bank target band in early 2024.

- **The current account** is projected to post a deficit of 13.4 percent of GDP this year before edging lower to 11.8 percent in 2023. Exports are benefiting from reorientation of trade flows through Moldova, while imports primarily reflect the impact of the energy crisis. Over the medium term, the current account deficit is expected to narrow closer to its pre-pandemic average.

- **The fiscal deficit** is projected at 6 percent of GDP in 2023. **Public debt** remains sustainable, peaking at 40.3 percent of GDP by 2024, with the overall risk of debt distress assessed as moderate. Public debt also benefits from strong debt carrying capacity, and external debt remains at low risk of debt distress (Annex IV).

**6. Risks to the outlook are high and firmly tilted to the downside** (Annex I). Moldova's energy security remains at risk from further disruptions in gas or electricity deliveries, given its dependence on supply from Russia, Ukraine, and the breakaway region of Transnistria. Although alternative sources of supply have been identified to compensate for current shortages, higher and more volatile energy prices, as well as war-related damage to the distribution infrastructure, represent major risks in the near term. The duration of recent shocks and the outlook for the energy sector are highly uncertain. Prolonged or additional energy shocks could aggravate Moldova's economic outlook, resulting in fiscal and balance of payments pressures, lower consumption, and output losses. Should inflationary pressures increase, confidence deteriorate further, or additional external shocks occur, policy trade-offs may become even more challenging. Social unrest over the cost-of-living crisis and political discontent over—appropriate but difficult—policy decisions may also upset Moldova's fragile socio-political equilibrium. Further escalation of the war leading to larger waves of refugee inflow to Moldova could put additional pressures on the government budget.

**7. The authorities shared the staff's assessment of the macroeconomic outlook and risks.** They acknowledged the criticality of strong contingency planning, which has helped cope with major shocks so far. They foresee a larger-than-previously-anticipated impact of the war on the Moldovan economy and recognize the prospect for exacerbated risks in the near term. The authorities are also concerned about security risks. They see support for the most vulnerable as a short-term priority given the soaring cost of living, although policy formulation remains highly challenging due to significant capacity constraints. The authorities also agree that a close monitoring of developments in the energy sector and continued building of contingency reserves are key, given unprecedented uncertainty.

## Table 1. Moldova: Contingency Planning

| Contingency measures | Rationale | Adequacy/ Use | Pressure points and risks |
|---|---|---|---|
| **Fiscal** | | | |
| Flexible emergency funds | To respond quickly to potential crises | 1.1 percent of GDP was budgeted for 2022, of which 0.9 percent of GDP was allocated towards the energy vulnerability scheme (by end-September 2022) | Additional measures to support the economy and the most vulnerable from rising energy and food prices; sharper-than-anticipated increases in energy prices and/or interruptions in energy supply |
| Cut non-priority expenditures, reduce capex | To support priority spending needs | Potentially sizeable given the relatively high shares of goods and services, other current and capital expenditures in the budget | |
| **Energy** | | | |
| EBRD credit line | For gas storage and emergency purchases | EUR 300 million, of which EUR 100 million (first tranche) has been used to purchase gas for storage (as of end-November 2022); the remainder of the EBRD credit line expected to be used before end-2022 | Sharper-than-anticipated increases in energy prices and/or interruptions in energy supply |
| Energy rationing / Energy saving | Rationing in case alternative energy supplies in the region become capacity constrained or significantly more expensive | Overall electricity consumption was reduced by 16 percent in October, thanks to voluntary energy saving; larger savings are expected in November-December as households faced by higher utility bills improve their energy efficiency | |
| Additional changes in gas tariffs | Larger-than-expected import price increases will be passed on to consumers, while supporting those most vulnerable through targeted subsidy scheme | A fourfold increase in gas tariffs and roughly twofold increases in heating and electricity tariffs have been implemented between 2021 and 2022; the authorities designed and are rolling out a targeted energy vulnerability scheme (Box 1) | |
| EU's Energy Platform | To reduce gas demand, enable efficient use of infrastructure, address infrastructure bottlenecks, and diversify gas supply | Consistent with IMF staff advice to diversify gas supply | |
| ENTSO-E Continental Europe | To improve the security of electricity supply in Europe | Moldovan Power System has been synchronized with the ENTSO-E Continental Europe earlier this year; using this platform, the authorities secured supplies from Romania | |
| Energocom recapitalization | To finance emergency gas supply and strategic reserve build-up in order to facilitate diversification of gas supply | By end-November, Energocom has secured close to 2 months of strategic reserves using a combination of recapitalization resources and the first tranche of the EBRD credit line | |
| **Financial** | | | |
| Toolkit to address liquidity pressures | To ease liquidity pressures and maintain banking system liquidity | The authorities have already deployed MDL standing facilities and FX swaps, FX interventions, and ensured continued supply of FX banknotes; they also upgraded the ELA framework and plan to undertake other contingency measures to address the buildup of liquidity risk | Renewed acceleration of deposit withdrawals and/or degraded confidence by heightened risk aversion over adverse spillovers from the war in Ukraine |
| Necessary contingency measures, in case of unprecedented uncertainties | To ease external and liquidity pressures, should severe downside risks materialize and endanger macroeconomic and financial stability | A contingency plan has been prepared and discussed with IMF staff; the NBM has experience using these measures; in consultation with IMF staff, these measures would be used in combination with a broader macroeconomic adjustment package | |
| **External** | | | |
| FX reserves buffer | Safeguard against sudden external adjustment | The reserve buffer is broadly adequate, estimated at 4.3 months of imports in 2022 | Potential intensification of spillovers from the war in Ukraine |

# PROGRAM PERFORMANCE

**8. Program performance was strong**, based on end-September performance criteria and structural conditionality (MEFP Tables 1 and 2).

- **Quantitative performance criteria (QPCs) and indicative targets (ITs)**: All the QPCs and ITs for end-September 2022 were met. Data to assess the QPCs for end-December are not yet available. The authorities confirmed that no external payment arrears have accumulated to date, and staff assesses that the continuous performance criterion on external payment arrears has been met.

- **Inflation consultation band**: Inflation was 34 percent (y/y) in September, corresponding exactly to the mid-point of the inflation consultation band.

- **Structural conditionality**: The two **prior actions** are on track of being met by the time of the Board meeting: (i) the adoption of the 2023 budget consistent with program objectives; and (ii) strengthening the institutional autonomy and governance of the NBM. Of the two end-September structural benchmarks (SBs), one was met, and the second will be implemented with delay: (i) the amended legislation and regulations to expand the coverage of the existing public investment management framework was implemented in September, while (ii) the state-ownership strategy for all state-owned enterprises (SOEs) was missed but is expected to be implemented in December.

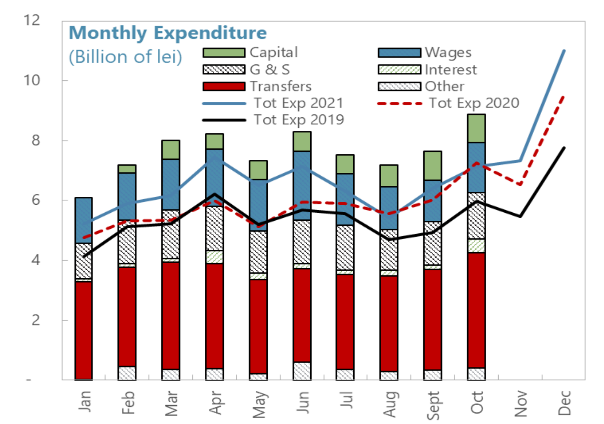
# POLICY DISCUSSIONS

**9. The multiple war-induced shocks call for strong policy formulation, coordination, and implementation**. The authorities' contingency planning and crisis preparedness have paid off so far, especially to maintain energy security and secure adequate financing. Ensuring an appropriate policy mix is critical to navigate the current crises and mitigate its impact on the economy. Fiscal policy should continue to focus on protecting those most vulnerable by the energy and cost-of-living crises, while maintaining fiscal sustainability. Monetary policy should remain agile and aim at containing domestic sources of inflation and limiting second round effects of external shocks. Continued close monitoring of risks and preserving strong buffers will help safeguard financial sector stability. Progress on the governance and institutional reform agenda will help build a solid foundation for strong and inclusive growth.

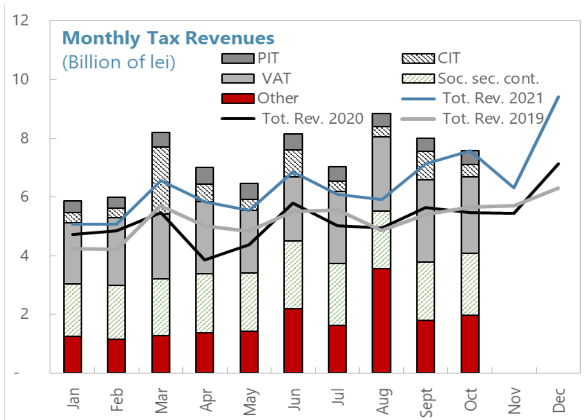
## A. Fiscal and Energy Sector Policies

### Background

**10. Fiscal revenues remained robust, while past trends of budget under-execution continued in 2022.** The overall fiscal deficit is projected at around 4.2 percent of GDP by end-2022 (compared with the budgeted 6.2 percent of GDP), notwithstanding the additional support for the vulnerable and costs to recapitalize the energy company to build up the storage of gas. This is due to higher-than-expected revenues and external grants and under-execution of current and capital expenditures.[3] Tax revenues remain dynamic, boosted by an inflationary effect on VAT and robust corporate income tax. On the expenditure side, the October acceleration was largely driven by transfers to households, goods and services, and wages, reflecting policy decisions to address the cost-of-living crisis.



Source: Ministry of Finance



Source: Ministry of Finance

**11. The authorities' response to the energy crisis has been agile and comprehensive.** Staff estimates that the reduced supply of gas from Gazprom (¶2) will add about US$180–260 million to the import bill for the 2022-2023 winter, assuming continued adoption of rationing and energy efficiency measures; without the latter, the added cost rises to US$600-750 million. To help vulnerable households cope with the consequent steep increases in energy tariffs (a fourfold increase in gas tariffs, and roughly twofold increases in heating and electricity tariffs between 2021 and 2022), the authorities are rolling out a targeted social assistance program, which aids vulnerable energy consumers through partial payment of their energy bills (Box 1). With funding from the EBRD as well as budgetary resources, the authorities are also accumulating natural gas reserves, targeting enough storage to sustain consumption through the peak winter months (with around half the target level in storage by late November).

## Policies

**12. In 2023, the authorities plan to pursue critical social and macroeconomic priorities.** The 2023 budget (**prior action**) envisages 6 percent of GDP deficit, prioritizing measures to respond to the cost-of-living crisis, ensure energy security, and address severe capacity constraints in the civil service. It entails a partial adjustment of pension payments in line with growth in social security

[3] Under execution is a recurrent issue in Moldova. In 2022, good and services are expected to close the year with 85 percent execution, a reflection of capacity at the local government level and structural weaknesses in the budgeting process. Capital expenditure at 65 percent execution is in line with historical rates, reflecting weaknesses in project selection and implementation.

contributions, increased allocations for social assistance programs, a conservative increase in public sector wages to address low capacity in the civil service and retain qualified staff, and funding for the new targeted Energy Vulnerability Reduction Fund (EVRF, MEFP ¶16). The budget also includes significant allocations for contingencies to help absorb unexpected shocks. On the revenue side, the authorities aim to broaden the VAT base by removing exemptions on specific imported items, increase excises for tobacco and alcohol (in line with discussions in the EU accession process), and support SMMEs liquidity by approving a zero-rate on undistributed income (subject to a sunset clause). The deficit will be financed by external grants and concessional loans, domestic borrowing, and drawdown of cash buffers.

**Table 2. Moldova: Fiscal Policy Measures, 2023**

| Policy Priorities | Cost (% of GDP) | Temporary | Structural | Targeted |
|---|---|---|---|---|
| *Social protection and cost of living* | | | | |
| - Pension adjustment (14.5 percent) | 1.2 | | ✓ | |
| - Wage bill increase (17.6 percent) | 1.2 | | ✓ | |
| *Social assistance* | | | | |
| - Additional allocations to social programs (school meal programs and child allowances) | 0.3 | ✓ | | ✓ |
| - Scaling up the Ajutor Social program | 0.2 | | ✓ | ✓ |
| - Heating assistance (APRA) | 0.2 | ✓ | | ✓ |
| *Energy* | | | | |
| - Allocation to the Energy Vulnerability Reduction Fund (EVRF) | 1.4 | | ✓ | ✓ |
| - Emergency contingency funds | 0.3 | ✓ | | |
| *Revenue measures* | | | | |
| - Liquidity support to SMMEs | 0.5 | ✓ | | ✓ |
| - Higher excises for tobacco and alcohol | -0.1 | | ✓ | |
| - Reduction of tax expenditures | -0.1 | | ✓ | |
| **Total** | **5.2** | | | |

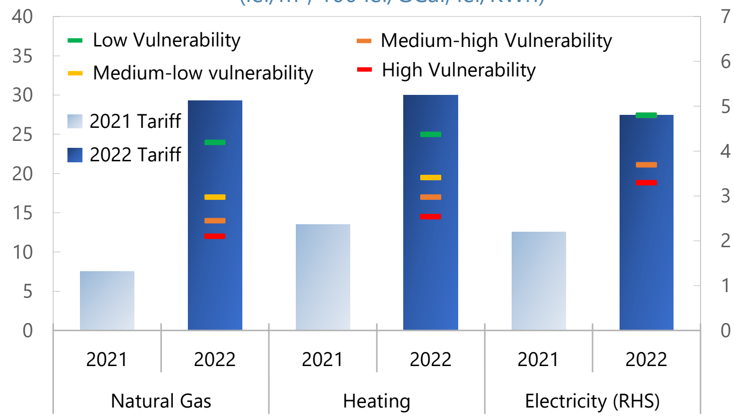
**13. The medium-term fiscal program aims to balance development spending needs with fiscal discipline and public debt sustainability.** Revenue mobilization efforts will be rooted in advancing tax administration reforms and reducing tax expenditures. On the expenditure side, the focus will be on phasing out crisis-related spending, while safeguarding social assistance programs and gradually increasing the levels and execution of pro-growth development spending. Capital expenditures will increase gradually reflective of absorptive capacity. The medium-term budget framework will target a gradual reduction of the general government deficit from around 4.6 to 3.1 percent of GDP in 2024-27, keeping public debt contained to allow sufficient buffers against contingent liability risks and shocks. Securing additional grant and concessional financing from donors will be critical over the medium term to reduce reliance on expensive, short-term domestic financing.

**14. Fiscal policies should stand ready to adjust and address pressing needs, should additional adverse risks materialize.** The authorities should continue developing and adapting contingency planning, amid escalating concerns about energy supplies and price uncertainty. Options include the use of contingency funds and reprioritization of spending to support more urgent needs. The authorities continue to proactively seek additional concessional financing that would allow an appropriate response to further shocks without hampering fiscal sustainability. In general, any eventual measures underpinning a larger fiscal spending envelope should be temporary, targeted, and transparent.

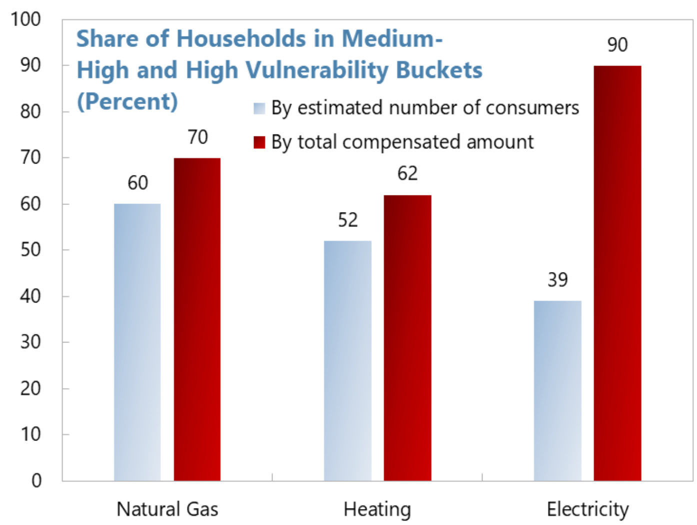
## Box 1. Energy Crisis Response: Protecting the Vulnerable

**An agile response to an extreme shock ensured uninterrupted energy supply, albeit at inevitably higher prices**. Moldova—which relies on imports for around 80 percent of its energy needs—has faced complete shutdown from its main sources of electricity, and a sharp reduction in the supply of natural gas from Russia. Increased reliance on a volatile market is raising the energy import bill. To protect the vulnerable, the authorities have adopted a system of targeted transfers.

**Energy Tariffs and Compensated Levels**
(lei/m³, 100 lei/GCal, lei/KWh)




Source: Ministry of Labor and Social Protection of Moldova.
Notes: Height of dark blue bars represent level of uncompensated consumer tariffs in 2022, for natural gas, heating, and electricity; these apply to households categorized as "not vulnerable". For households classified in the Low, Medium-low, Medium-high, and High vulnerability groups, the green, yellow, orange, and red dash respresent the tariff net of the government transfer, respectively (only three categories for electricity). Unit for natural gas is lei/m³, unit for heating is 100 lei per GCal, unit for electricity is lei/KWh.




Source: Ministry of Labor and Social Protection of Moldova.

**Targeted transfers have alleviated the effect on households, without distorting price signals**. Households are categorized into four levels of energy vulnerability (plus a non-vulnerable category), a function of household size, type of heating system, income level, and the weight of energy costs on income. The authorities estimate that households in the most vulnerable group typically spend all their income net of basic consumption needs (food and hygiene), on energy. The energy bills of eligible households are then adjusted through a schedule of transfers mapped to the assessed level of vulnerability, up to a maximum level of energy consumption. The size of the transfers, as well as the caps beyond which no compensation applies, depend on the type of energy source. About 700 thousand households (out of approximately 1.3 million) had registered by November 2022, with 39 (for electricity) to 60 percent (for gas) of those registered allotted to the medium-high or high vulnerability buckets. The package helps protect the vulnerable, while avoiding distortion of price signals, thus preserving incentives for needed adjustments in consumption.

15. **The authorities remain committed to advancing fiscal structural reforms.** These focus on boosting revenue mobilization, including by introducing a General Anti-Avoidance Rule provision in the tax code to counter domestic and international abusive tax practices (**new end-September 2023 SB**), extending the tax expenditure analysis to include all taxes, and implementing an automated tax filling compliance program (**two new end-December 2023 SBs**). The authorities also plan to institutionalize spending reviews and bolster the credibility of the MTBF, including by

establishing binding or indicative multi-year expenditure limits (MEFP ¶9), as well as greater fiscal transparency to improve budget execution (MEFP ¶8-10).

## B. Monetary and Exchange Rate Policies

### Background

**16. The NBM's data-driven and forward-looking monetary policy response remains appropriate.** The NBM reacted more proactively to inflationary pressures compared to peer countries, aggressively hiking policy rates and increasing reserve requirements. The NBM's policy response has paid off, effectively containing second-round effects and anchoring inflation expectations. Furthermore, its monetary tightening has been transmitted into higher deposit and lending rates, resulting in a welcome slowdown of consumer credit growth. In December, the NBM lowered the base rate from 21.5 percent to 20 percent and reserve requirements in MDL from 40 percent to 37 percent (reserve requirements in FX remained unchanged). The monetary easing was primarily guided by the revised downward trajectory of inflation on account of significant deterioration in macroeconomic outlook combined with tight financing conditions, while global energy and food prices show signs of moderations.

### Policies

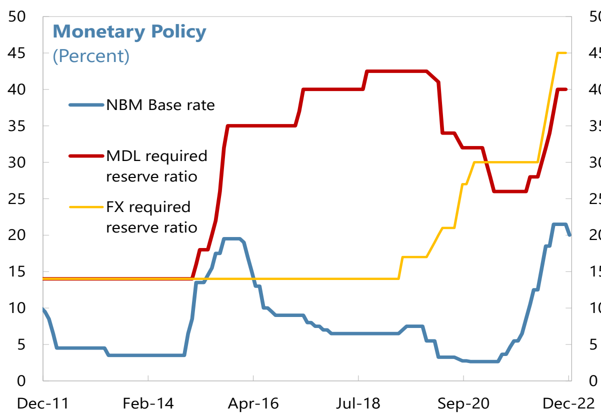
**17. While carefully calibrated monetary easing may be warranted at the current juncture, exceptionally high uncertainty calls for continued vigilance.** Given the significant decline of the projected inflation trajectory and the likely decline in the short-term neutral rate, a cautious reduction of the policy rate is justified to avoid undue further tightening of the monetary policy stance (Box 2). With the budgetary under-execution resulting in a weaker-than-expected fiscal impulse and strong tightening impulse arising from the newly implemented macroprudential measures, this will also help strengthen the policy mix and reduce risks of impeding economic recovery due to an overly tight overall policy stance. However, the NBM should remain agile to adjust the pace of normalization if inflation proves to be more persistent than anticipated. Specifically, staff recommends pausing the monetary easing until inflation is confirmed to be in a firm downward trajectory. Clear communication is key to continue firmly anchor inflation expectations and help fend off political pressures on the NBM independence. Going forward, continued development of the financial market and further liberalization of the capital account, carefully tailored to market conditions in the aftermath of the current crises, will help strengthen monetary policy transmission.

**18. The exchange rate should be allowed to fully play its role as a shock absorber.** The NBM is committed to allow necessary exchange rate adjustments and limit interventions to counteracting excessive exchange rate volatility, while also actively communicating its intervention strategy to the market. Preserving sufficient FX buffers is also critical to cope with new or longer-lasting shocks.

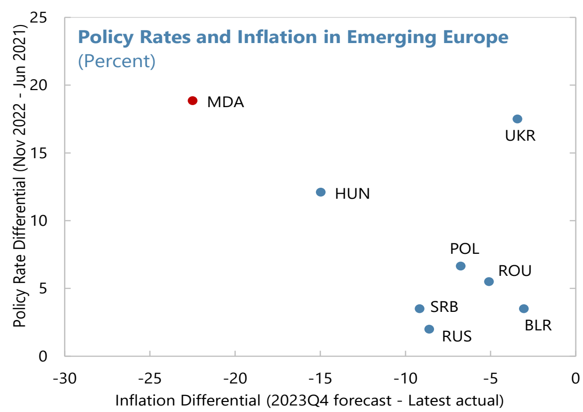
19. **Strengthening the institutional autonomy and governance of the NBM is essential to safeguard its credibility and ensure policy effectiveness.** The NBM's independence is critical to effectively execute its functions and deliver on its mandates, particularly in times of high uncertainty. Towards this objective, as a **prior action** for the completion of the review, the authorities will approve a package of legislative amendments to strengthen the institutional autonomy and governance of the NBM, in line with safeguards recommendations.

## Box 2. Monetary Policy Stance

**The NBM started its tightening cycle ahead of most peer countries, and with more aggressive steps.** The NBM's base rate increased from 2.7 percent in June 2021 to 21.5 percent in August 2022 – the fastest tightening among regional peers. Liquidity conditions were also tightened, with banks' reserve requirements in FX and MDL increasing by 14 and 15 percentage points, respectively, over the same period. Such proactive tightening was appropriate given significant inflationary pressures. Despite expecting inflation to peak in October 2022 and to fall thereafter, the NBM cautiously maintained its tighter policy stance in September and November, keeping the policy rate and reserve requirements unchanged amid high short-term uncertainty.



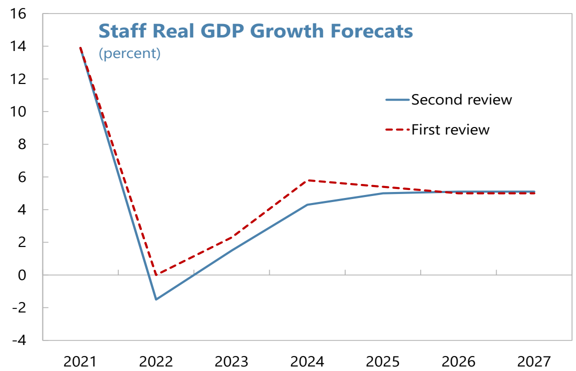
Sources: National Bank of Moldova.



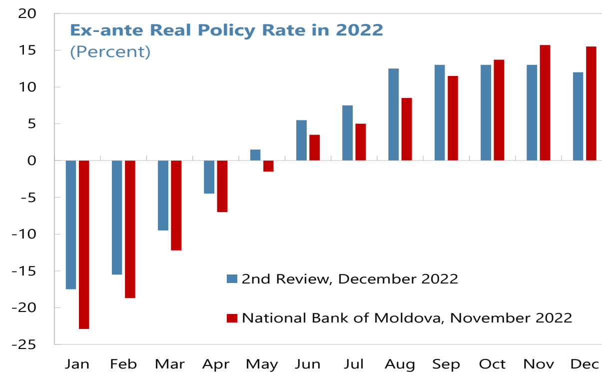
Source: Haver, Countrty Authorities, IMF WEO, IMF staff calculation.

**The NBM's proactive, forward looking, and data-driven monetary policy has paid off**. Bank domestic credit slowed significantly, with growth of credit to households declining by 19 percentage points in October 2022 (y/y in nominal terms), also aided by new prudential regulation on consumer lending (see Box 3). GDP growth has sharply decelerated, and the real wage contracted by 13.4 percent in 2022Q3 (y/y), suggesting no inflation-wage spiral. The second-round effects of imported inflation have been contained and consensus forecasts show that two-year ahead inflation projections fall within NBM's target band. The gross international reserves position remains strong (see ¶4), while deposit de-dollarization trends have been prominent, with the share of term deposits in FX declining from 43 percent in February 2022 to 34.7 percent in October.

## Box 2. Monetary Policy Stance (concluded)

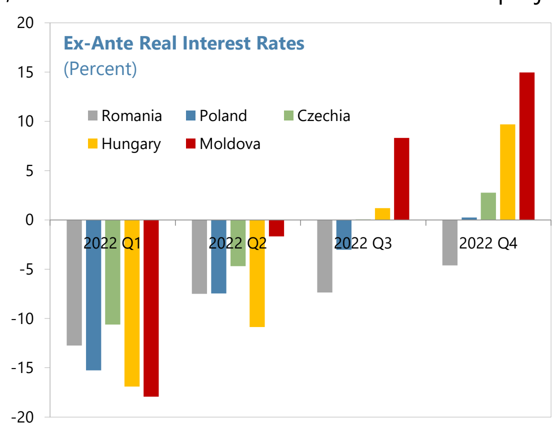



Sources: IMF Staff Projections

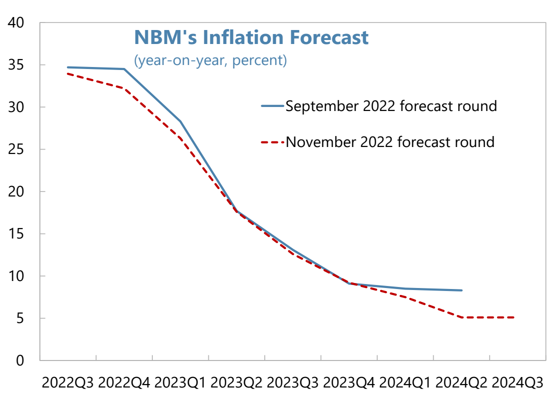



Source: NBM and IMF Staff calculations.

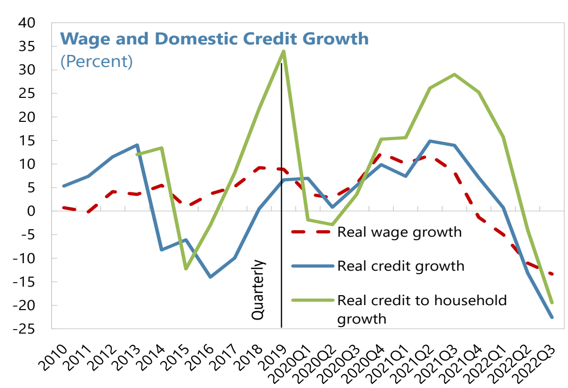
**A disinflationary outlook is consistent with cautious rotation to the easing cycle.** IMF staff forecast inflation to decelerate faster than initially anticipated, consistent with the NBM's revised forecast projecting inflation to fall within the inflation target band by 2024Q2. Near-term economic growth is projected to be significantly weaker than expected at the time of the first review and medium-term scarring to be significantly larger. The negative output gap is estimated to have widened (about 5 percent of potential GDP in 2023) and to be more persistent compared to the forecasts at the time of the first review. Besides important base effects, tight domestic financing conditions and contracting real credit, falling real incomes, weaker-than-anticipated fiscal impulse in 2022 (see ¶10), and weak domestic demand due to still elevated uncertainty are all contributing to a pronounced disinflationary outlook. In this context and considering the overall tightness of monetary conditions compared to regional peers, a cautious monetary policy easing is warranted to avoid an over-restrictive monetary stance and achieve a more balanced fiscal-monetary policy mix in support of the economic recovery.




Sources: National central banks and IMF staff calculations.




Sources: National Bank of Moldova




Sources: Moldovan authorities, Haver, and IMF staff calculations.

## C. Financial Sector Policies

### Background

**20. The banking sector retains strong resilience, although risks remain significant amidst reduced liquidity buffers.** As of end-September, banks' capital ratio stands at 29.8 percent, well above regulatory requirement. Partly driven by policy changes in reserve requirements and by net outflows, the liquidity coverage ratio declined to 174 percent—from its pre-war level of over 300 percent—but remains above the prescribed 80 percent limit. Liquidity in FX remains stable, at around 42 percent of total deposits, which are currently only about 1 percent below pre-war levels. Nonperforming loans were stable at 6.5 percent of total loans, averaging out a small decline for households and an increase for corporates, but is likely to increase in the future given the economic slowdown. Return on equity and return on assets were 18.1 percent and 3.1 percent, respectively, pointing to continued favorable profitability. Risks of renewed deposit withdrawals remain significant given the proximity of the war to Moldova's borders. Two banks lost their correspondent bank relationships due to western sanctions on Russia and are advanced in the process to establish new ones. Increased loan loss provisioning and elevated credit risk from the macroeconomic downturn could also weigh in on future bank profitability.

**21. Recent policy and regulatory measures have curbed domestic bank credit growth.** While overall bank credit continues to grow in nominal terms, it is trending below its long-term average. Reflecting this, the NBM appropriately decided to maintain the counter-cyclical capital buffer rate at zero percent. To mitigate risks related to excessive consumer credit growth, the NBM: (i) raised the systemic buffer rate for banks' exposures to household credit, and (ii) issued regulations on responsible lending together with stricter credit-worthiness assessments for households. Aided by these measures and the tight monetary policy stance, the growth rate of new real estate and consumer credit loans has slowed significantly (Box 3).

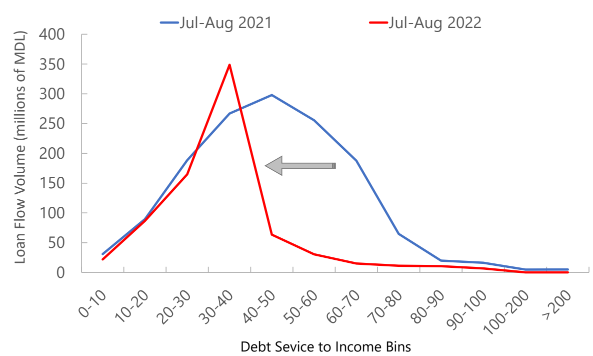
**22. Recent regulations curtailed non-bank lending and strengthened the solvency assessment for insurers.** Since September 2022, non-bank credit organizations (NBCOs) operate under tighter LTV and DSTI rules, introduced by the non-bank financial regulator (NCFM). Preliminary data from September and October suggests that NBCO's lending has significantly slowed down, by about 30 percent (y/y). For insurers, the more prudent rules for real estate and corporate shares valuations entered into force in August 2022. Most insurers maintain solvency well above the prescribed level and about half of the sector's assets are liquid. To facilitate implementation of Pillars II and III of the Solvency II framework, the NCFM will adopt the secondary legislation on licensing, qualified shareholders, and fit-and-proper and prudential requirements (**new end-June 2023 SB**). To enforce prudent practices, the NCFM continued a special administration in two insurers, which led to a recovery plan and a successful recapitalization of one insurer. Also, good progress has been made towards preparing the targeted review of the BRRL and the relevant secondary legislation (**end-June 2023 SB**) as well as the comprehensive review of the bank liquidation tools and closing gaps in the macroprudential framework.

## Box 3. Effect of Borrower Macroprudential Regulations in Moldova

**The regulation on responsible consumer lending by banks entered into force on July 1, 2022 and is aimed at preventing and/or limiting excessive credit and debt growth.** Under the regulation, the loan-to-value (LTV) ratio that applies to loans for real estate investments cannot exceed 80 percent, while the debt service-to-income (DSTI) ratio applied to consumer loans should not exceed 40 percent of the consumer's confirmed income. Further, the maximum maturity of the loan granted to the consumer has been limited to 5 years for consumer loans and 30 years for loans for real estate investments. To establish single rules for all participants engaged in lending, the NCFM implemented a similar act for the non-bank lending market on September 1, 2022. Violations of the regulation incur penalties in the form of lost interest and commission.

**The regulation increased compliance by banks with prudential borrower-based limits.** Between July and August 2022, based on the volume of new loan flows, the distribution of loans complying with the regulation increased compared to the year before. Thus, the mass of the DSTI distribution shifted to the left with the modal value occurring at the 30 to 40 percent threshold, which is around the limits set per the regulation. Only about 18 percent of newly approved loans are above the regulatory limit of 40 percent by end-August. This contrasts with the year before where the mode was at 40-50 percent with a high share of loans (60 percent) approved above the 40 percent DSTI threshold. A similar, but less strong, pattern appears for LTV limits with about 33 percent of new loans exceeding the 80 percent limit by end-July 2022.

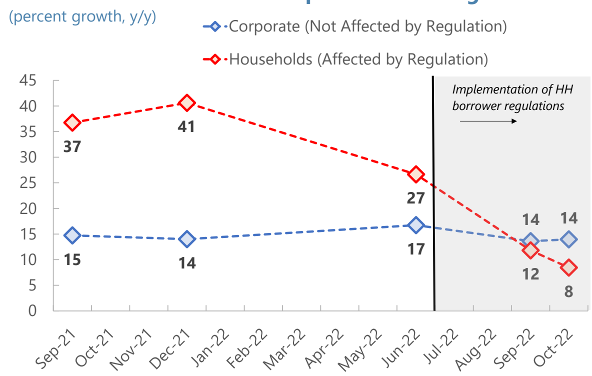
**Distribution of Debt Service to Income**
(Loan flow volume in millions of Moldovan Lei)




Sources: National Bank of Moldova

**The annual growth of household credit fell by about 15 percentage point three months into the regulation.** Credit growth to households—the sector affected by the regulation—steadily declined from 27 percent (y/y) just before the regulation came into force to 8 percent (y/y) three months after its implementation. As some of this large fall could also be due to the progressive tightening of interest rates or/and the economic slowdown, the growth of corporate loans, not affected by the regulation, has not exhibited similar patterns. Overall, after differencing out the corporate credit reduction as a proxy for the overall macroeconomic conditions' impact on credit, the regulation likely led to a decline in annual household credit growth by about 15 percentage points over three months.

**Credit to Households and Corporates after Regulation**
(percent growth, y/y)




Sources: National Bank of Moldova

**The impact on non-banks is yet to play out but initial estimates show a similar pattern to banks.** Non-banks started implementing the regulations in September 2022. Early data on non-bank consumer credit indicates a contraction in both the number of borrowers (extensive margin) and amount of borrowers (intensive margin) by about 50 and 30 percent (y/y) respectively.

### Policies

**23. Maintaining financial stability in an environment of heightened uncertainty requires close monitoring of risks.** Liquidity conditions can deteriorate due to resurgence of negative confidence effects, increased flows of refugees, and exchange rate pressures. The NBM should carefully monitor the liquidity position of individual banks and stand prepared to undertake appropriate contingency measures to address the buildup of liquidity risks. Preserving banks' strong capital position is also critical to absorb asset quality deterioration. In that respect, the NBM has advised banks against any dividend payouts until the shock is weathered.

**24. The NBM took steps to improve financial inclusion that are also conducive to financial stability** (Annex III). To bolster efforts for improving financial inclusion, the NBM is actively modernizing the financial market infrastructure to facilitate cashless payments. It also plans on introducing an e-KYC procedure which will help unserved and underserved groups access and use regulated financial services. Its new fintech division, charged with the responsibilities of acting as a point of contact for the local fintech firms and guiding local fintech players in the regulatory environment, will help encouraging the supervised entry of fintech companies. Staff support these initiatives, which could be key elements of a future National Financial Inclusion Strategy. However, rapid digitalization could trigger potential risks related to privacy and consumer protection, calling for appropriate supervision[4].

**25. Moldova needs a strong financial consumer protection.** With a growing financial intermediation and range of financial products and transactions, the transparency of the financial services provision and compliance with legislation are key to protect consumers against potential abusive practices and maintain trust in the financial system. A specialized agency, outside of the NBM, with a consumer protection mandate for all financial services, including consumer protection-related regulations and supervision, would eliminate current ambiguity in mandates spread across three agencies (Annex II on supervisory structures). A comprehensive reform to the legal framework on financial consumer protection, including the setup of an independent out-of-court mechanism for the resolution of conflicts, would be also helpful (FSSR recommendation).

## D. Structural Policies

### Background

**26. Longstanding systemic corruption has eroded trust in public institutions and weakened the rule of law.** Pervasive and entrenched corruption was viewed as the main pillar of an exploitative system built to use state powers and resources for enrichment of economic and political elites. Judicial actors are viewed as being among the most corrupt and susceptible to undue influence. Weaknesses in the legal and regulatory framework (including Criminal Procedure Code provisions allowing for lenient sanctions in corruption cases) as well as institutional challenges (e.g.,

[4] See IMF Departmental Paper "Powering the Digital Economy" and blog on digitization of money and finance.

inefficiencies in the operations and working relationship between key anti-corruption agencies) are among the factors impeding the effective functioning of the criminal justice system. Moreover, corruption enforcement historically has been focused on low-level acts and actors, and has not resulted in dissuasive, proportionate, or effective sanctions against perpetrators of serious corruption offenses.

27. **Reforming the SOE sector remains a priority to improve efficiency and contain fiscal risks.** Building on the end-March 2022 SB, the authorities plan to use the information from the quarterly financial statements to enhance the Fiscal Risk Statement and produce a more detailed assessment (MEFP ¶9). The authorities are also undertaking a comprehensive assessment of the financial position of all SOEs operating at the central government level, with a view to identify corrupt practices and legacy contracts that contribute to SOEs fiscal costs (MEFP ¶23).

**Policies**

28. **The authorities are working on an ambitious reform agenda to combat corruption and strengthen rule of law.** A major milestone was achieved with the appointment of the new head of the Anti-Corruption Prosecution Office (APO) in June 2022 **(end-December SB)**. To continue strengthening the autonomy and effectiveness of the APO, the authorities have committed to implementing legislative provisions requiring the APO to have an independent budget by FY 2024 (**new end-June 2023 SB**). The authorities have embarked in the "pre-vetting" of candidates to the judicial and prosecutorial self-governing bodies. This effort is ongoing, although the process is proving to be time consuming. The authorities are encouraged to continue with reform efforts in line with constitutional principles and international norms. The authorities comprehensive reform of the criminal law framework is much welcome. It notably includes improvements to the procedures for plea bargaining and other sentence reduction measures to prevent their misuse and the imposition of terms of imprisonment below the statutory minimum (**end-December 2022 SB**). The authorities have also committed to focus anti-corruption efforts and key institutions (APO and NAC) on high-level corruption (**end-December 2022 SB**). These reforms are expected to be concluded in early 2023.

29. **The authorities are expected to adopt the SOE state ownership strategy in December** (**end-September 2022 SB**, Box 4). Prior to the adoption of the strategy, extensive consultations were held with a working group that included experts from the World Bank, EU and EBRD. Going forward, the authorities plan to complete a triage of SOEs owned by the central government, in line with the approved state-ownership strategy (**new end-December 2023 SB**). They also intend to propose a privatization strategy for small and large privatizations and set economic benchmarks to identify the most opportune conditions for launching de-nationalization efforts (MEFP ¶23). Efforts to improve governance of SOEs are also moving forward (assisted by the World Bank), with plans to adopt regulations on the selective process of supervisory board members and auditing of SOEs.

## Box 4. SOE State Ownership Strategy

**Moldova's large SOE sector of over 900 companies faces elevated risks that amplify fiscal and macroeconomic vulnerabilities and undermine market competition, productivity, and private investment.**[1] Moldova stands to greatly benefit from strengthening its public corporate governance regime to put its public enterprises on a stronger footing, address vulnerabilities, and improve market structure. In this context, the authorities are pursuing a series of SOE reforms under the current program.

### Planned Sequencing of SOE Reforms Under the Current EFC/EFF Arrangement

| Governance Pillar | Policy objectives | Priorities and Sequencing | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2022 | | | 2023 | | 2024 | | 2025 |
| | Test date: | Ad hoc review Apr 2022 | 1st Review Jun 2022 | 2nd Review Sept 2022 | 3rd Review Dec 2022 | 4th Review Jun 2023 | 5th Review Dec 2023 | 6th Review Jun 2024 | 7th Review Dec 2024 |
| Regulatory Framework | SOE reforms to reduce fiscal risks and foster competition, productivity, and private investment | SOEs begin submitting quarterly financial statements | Conduct financial and fiscal assessment of SOE sector, including fiscal risks, fiscal costs and SOE fiscal 'health check' | | | | | | |
| | | | | Adopt a state ownership rationale and ownership policy | Phased implementation of SOE ownership policy (including beyond 2025) | | | | |
| | | | | Strengthen SOE governance and implement enhanced SOE reporting, accountability, and controls | | | | | |

**Compared to international best practices, Moldova's public corporate governance regime could be strengthened.** One of the key weaknesses is the absence of a comprehensive state-ownership policy and strategy, which is the next milestone in the authorities' SOE reform agenda. This policy defines the objective for state ownership and the rationale behind establishment and termination of public corporations (including the criteria to determine their legal form as public corporations versus other general government units, criteria for extension of state aid, etc.).

**The authorities current draft state-ownership policy is a concise, high-level policy document that clearly sets out rationales for ownership of SOEs.** The purpose of the SOE state ownership strategy is to identify public enterprises (operating at the central government level) to undergo reorganization, privatization, or liquidation, alongside plans to strengthen their governance structures (MEFP ¶23). The rationale for SOE ownership are: (i) support of national economic interests (e.g., energy, communications, transport); (ii) maintaining critical infrastructure (e.g., local public services); (iii) production of strategic goods and services (e.g., weapons); and (iv) provision of basic social services. The draft document also lists all the laws relevant to state-ownership policy, elements to strengthen governance bodies of SOEs, disclosure and transparency, as well as scope for privatization based on set criteria. An action plan accompanying the strategy lists the key objectives for implementation which include categorization of SOEs in terms of privatization readiness, enhancing the capacity of the Public Property Agency (PPA, a central administrative authority subordinated to the government), improving governance and transparency, and enhancing reporting by SOEs.

[1] IMF WP/22/50

# PROGRAM MODALITIES

**30. The authorities propose to update program conditionality as follows:**

- Modification of indicative targets on the ceiling for general government wage bill and the floors on targeted social spending and developmental spending for end-March 2023, end-June 2023, end-September 2023, and end-December 2023, reflecting an updated assessment (¶12) and the inclusion of EVRF in the floor for targeted social spending (MEFP Table 1);

- Waiver of applicability of end-December 2022 performance criteria (PCs) under the EFF arrangement, for which no final data are available for assessment[5];

- Establishment six new structural benchmarks to guide implementation of reform priorities under the program in 2023 (¶¶16, 25, 31, 32, and MEFP Table 2) for: (i) ensuring that the anti-corruption prosecution office operates with an independent budget in 2024 (end-June 2023); (ii) adopting secondary legislation on licensing, qualified shareholders, and fit-and-proper and prudential requirements for the insurance sector (end-June 2023); (iii) introducing a General Anti-Avoidance Rule provision in the tax code (end-September 2023); (iv) extending the tax expenditure analyses to include excise, customs duties, and real estate tax (end-December 2023); (v) implementing an automated tax filling compliance program (end-December 2023); and (vi) completing a triage of SOEs owned by the central government (end-December 2023);

- Modify the TMU definition of the continuous ceiling on accumulation of external payments arrears to exclude external payment obligations for which the creditor has extended a payment deferral or payments are made into an escrow account due to the risks of blocking of the repayment to Russia by corresponding banks.

**31. The program continues to catalyze significant external support with international partners pledging new financing to help Moldova bridge immediate financing needs.** The program is fully financed for the next 12 months, with firm financing assurances for 2023–25. The authorities intend to use the disbursement after the completion of this review (SDR 20.65 million, or 11.97 percent of quota) for budget support. Relative to the staff report for the first review of the ECF/EFF (text table):

- For 2022, additional bilateral grants from the United States and Norway were included.

- For 2023, additional financing envisages: (i) grant financing from World Bank's DPO and the UNDP; (ii) bilateral loans from the French Development Agency and the Japan International Cooperation Agency; and (iii) grants and loans from the European Commission.

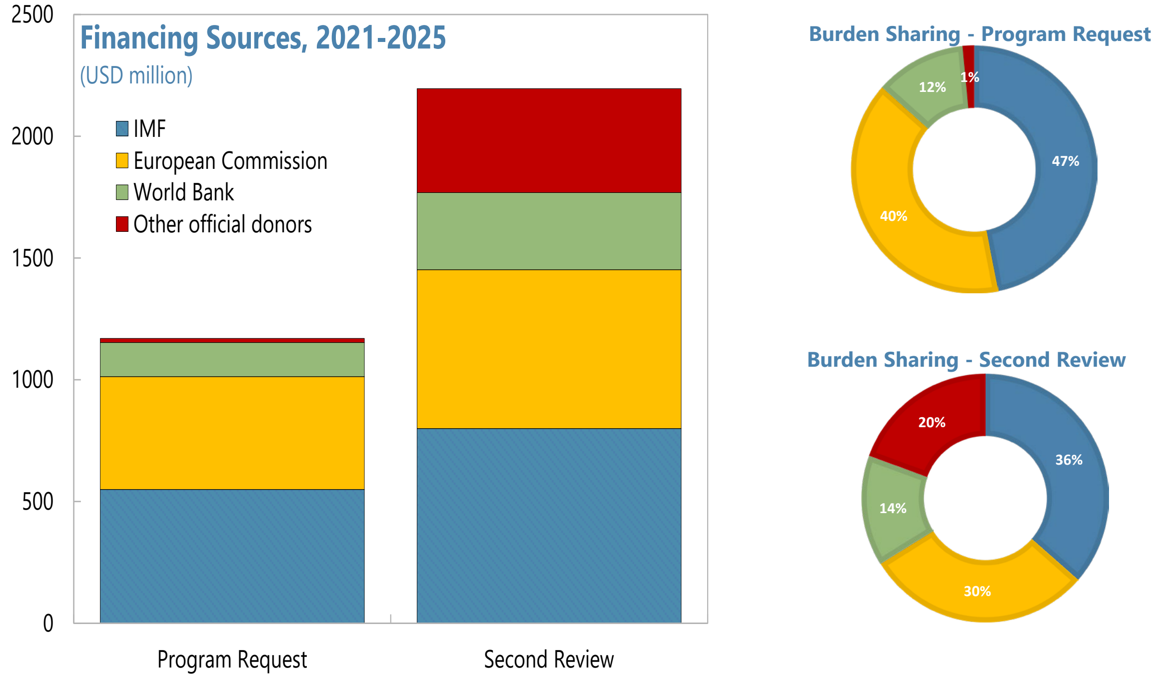
- This package of budget grants and concessional loans from multilateral institutions and bilateral donors is sufficient to meet urgent financing needs consistent with the baseline general government deficit of 6 percent of GDP in 2023. In communications with international partners, staff stressed that additional financing needs next year may require further emergency support should downside risks materialize.

[5] Reviews of performance under an arrangement in the Fund's General Resources Account are based on the most recent PCs. For the end-December 2022 PCs, no final data are available, prompting the request for a waiver of applicability of PCs under the EFF arrangement. The second review under the ECF arrangement, a facility in the Poverty Reduction and Growth Trust, remains based on end-September 2022 PCs.

## Table 3. Moldova: Financing Needs and Sources, 2022–24

| | 2022 - First Review | 2022 - Second Review | 2023 - First Review | 2023 - Second Review | 2024 - First Review | 2024 - Second Review |
|---|---|---|---|---|---|---|
| ***Fiscal, MDL millions*** | | | | | | |
| Fiscal Financing Needs | 20,189 | 15,424 | 19,030 | 22,199 | 16,986 | 15,740 |
| Budget Sources | 7,165 | 2,696 | 11,070 | 4,931 | 11,455 | 9,508 |
| Net Domestic Issuance | 0 | -1,136 | 4,290 | 3,000 | 13,121 | 9,819 |
| Use of funds in the single Treasury account | … | 2,442 | … | 1,732 | … | 2,529 |
| Other Domestic 1/ | -2,019 | -2,837 | -4,242 | -6,049 | -4,344 | -5,518 |
| External Project Loans 2/ | 9,184 | 4,227 | 11,022 | 6,248 | 2,678 | 2,678 |
| IMF | 4,124 | 3,328 | 4,300 | 4,648 | 3,276 | 3,081 |
| ECF/EFF: Program | 4,124 | 3,328 | 4,300 | 4,648 | 3,276 | 3,081 |
| World Bank | 3,153 | 3,057 | 2,150 | 2,516 | 916 | 916 |
| DPO: Loan | 2,970 | 2,880 | 2,150 | 2,150 | 916 | 916 |
| DPO: Grant | 183 | 177 | 0 | 366 | 0 | 0 |
| European Commission | 2,386 | 2,537 | 1,509 | 6,391 | 1,339 | 1,176 |
| DG ECFIN: MFA Loans | 811 | 710 | 1,006 | 3,085 | 1,205 | 1,059 |
| DG ECFIN: MFA Grants | 347 | 304 | 252 | 1,212 | 134 | 118 |
| DG NEAR: Budget Support Grants | 1,228 | 1,522 | 252 | 2,094 | 0 | 0 |
| Bilateral Support | 3,360 | 3,807 | 0 | 3,715 | 0 | 1,059 |
| AFD: Budget Support Loan | 1,391 | 304 | 0 | 992 | 0 | 1,059 |
| AFD: Sectoral Support Loan | 348 | 1,218 | 0 | 0 | 0 | 0 |
| Government of Poland: Budget Support Loan | 463 | 406 | 0 | 0 | 0 | 0 |
| JICA: Budget Support Loan | 0 | 0 | 0 | 2,150 | 0 | 0 |
| Government of Romania: Grant | 232 | 203 | 0 | 0 | 0 | 0 |
| Government of Germany: Grant | 927 | 812 | 0 | 0 | 0 | 0 |
| Government of United States: Grant | 0 | 576 | 0 | 0 | 0 | 0 |
| Government of Norway: Grant | 0 | 288 | 0 | 0 | 0 | 0 |
| UNDP | 0 | 0 | 0 | 573 | 0 | 0 |
| ***Balance of Payments, USD millions*** | | | | | | |
| BOP financing needs | 1198 | 1034 | 380 | 1205 | 895 | 787 |
| Reserves drawdown | 514 | 371 | -10 | -401 | -510 | -380 |
| External financing | 684 | 663 | 370 | 803 | 385 | 407 |
| IMF | 208 | 173 | 200 | 216 | 286 | 269 |
| World Bank | 159 | 159 | 100 | 117 | 40 | 40 |
| DPO: Loan | 150 | 150 | 100 | 100 | 40 | 40 |
| DPO: Grant | 9 | 9 | 0 | 17 | 0 | 0 |
| Bilateral Loans | 111 | 100 | 0 | 146 | 0 | 46 |
| France - AFD | 88 | 79 | 0 | 46 | 0 | 46 |
| Government of Poland | 23 | 21 | 0 | 0 | 0 | 0 |
| Japan - JICA | 0 | 0 | 0 | 100 | 0 | 0 |
| Bilateral Grants | 59 | 98 | 0 | 27 | 0 | 0 |
| Government of Romania | 12 | 11 | 0 | 0 | 0 | 0 |
| Government of Germany | 47 | 42 | 0 | 0 | 0 | 0 |
| Government of United States | 0 | 30 | 0 | 0 | 0 | 0 |
| Government of Norway | 0 | 15 | 0 | 0 | 0 | 0 |
| UNDP | 0 | 0 | 0 | 27 | 0 | 0 |
| European Commission | 147 | 132 | 70 | 297 | 59 | 51 |
| DG ECFIN: MFA Loans | 41 | 37 | 47 | 143 | 53 | 46 |
| DG ECFIN: MFA Grants | 18 | 16 | 12 | 56 | 6 | 5 |
| DG NEAR: Budget Support Grants | 88 | 79 | 12 | 97 | 0 | 0 |

1/ Includes amortization of existing foreign project loans, privatization receipts, and some transfers between government bodies.
2/ Financing related to infrastructure projects.



Sources: IMF Staff Projections and Moldovan Authorities

**32. In November, the Parliament adopted the Poverty Reduction and Strategy Paper (PRSP), "European Moldova – 2030"** (MEFP ¶10). The authorities committed to prepare a new PRSP before the second review, given Moldova's access to PRGT resources under the ECF.[6] Much like the previous PRSP, "Moldova 2020", the current strategy unifies in one document the government's poverty reduction strategy and a development vision. The document establishes ten general objectives, which aim to bring Moldova closer to the European Union standards: (i) increasing income from sustainable sources and reducing inequalities; (ii) improvement of living conditions; (iii) ensuring relevant and quality education; (iv) raising the level of culture; (v) improving health outcomes; (vi) ensuring robust and inclusive social protection system; (vii) ensuring efficient, inclusive and transparent governance; (viii) building a fair, incorruptible and independent justice system; (ix) promoting a peaceful and secure society; and (x) ensuring healthy and safe environment.

**33. Moldova's capacity to repay the Fund is adequate but subject to significant risks.** The Fund's exposure peaks at 6.7 percent of GDP in 2024, while the total debt service to the Fund peaks at 2.7 percent of total exports in 2024. Moldova has a strong track record of repayments to the Fund, with the public debt considered sustainable. Moldova's risk of external debt distress remains low, while its overall risk of debt distress is assessed to be moderate; the public and publicly guaranteed (PPG) external debt is held mainly by multilateral and bilateral donors and is mostly

[6] See IMF Country Report No. 22/1

medium and long term and on concessional terms (Annex IV). Risks to the capacity to repay remain rooted in the volatile political environment and the possibility of policy reversals.

**34. Risks to the program remain high but mitigated by strong ownership.** The authorities remain committed to program objectives, with Fund-supported reforms benefiting from strong synergies with the EU accession reform agenda. The authorities are also cognizant of the risks related to the energy sector and other spillovers from the Russia's war in Ukraine, and, in consultation with staff, continue to update contingency plans to deal with more protracted shocks. Moldova's external reserve buffer is broadly adequate, safeguarding against sudden external adjustment in the event of intensification of spillovers from the war. Implementation of the two prior actions and the authorities' resolve to press ahead with difficult but necessary reforms can mitigate these risks. Help from development partners and donors would support reform momentum and catalyze external financing.

# STAFF APPRAISAL

**35. Moldova continues to grapple with persistent external and domestic headwinds.** Moldova remains highly vulnerable to further escalation of the Russia's war in Ukraine. The hardship from high energy and food prices and frequent anti-government protests are weighing on the fragile social and political fabric.

**36. The economic outlook is weaker-than-anticipated, amid disruptions of energy supplies and the worsening external environment.** Risks of disruption of energy supplies have materialized, with gas and electricity deliveries significantly impacted. The economy is projected to contract in 2022, and to only recover gradually in the near-term due to protracted impact of the war and worsening outlook of main trading partners. Medium-term war-induced scarring is expected to be large. While the revised inflation outlook warrants carefully calibrated easing of monetary policy stance, exceptionally high uncertainty calls for continued vigilance. The NBM should stand ready to adjust the pace of monetary policy normalization, should inflationary risks persist. Budget under-execution remains large, while fiscal policy has focused on countering the cost-of-living and energy crises. Risks to the outlook are high and firmly tilted to the downside, particularly due to risks of further escalation of Russia's war in Ukraine and concerns about Moldova being drawn into the conflict, and further materialization of energy risks.

**37. Near-term fiscal policy focusses on measures to respond to the cost-of-living crisis and ensure energy security**. The financing of the 2023 general government deficit appropriately relies on external grants and concessional loans, reducing the need to rely on expensive short-term domestic financing and the drawdown of existing cash buffers. Staff support the authorities' efforts to gradually increase public sector wages without compromising fiscal sustainability objectives. If additional risks may materialize, pressuring expenditure above the baseline projection, contingency allocations and grant financing should be pursued for one-off emergencies before seeking a further expansion of the fiscal deficit. Therefore, the authorities should continue proactively seeking additional external grant financing to mitigate downside risks, in line with their fiscal sustainability objectives.

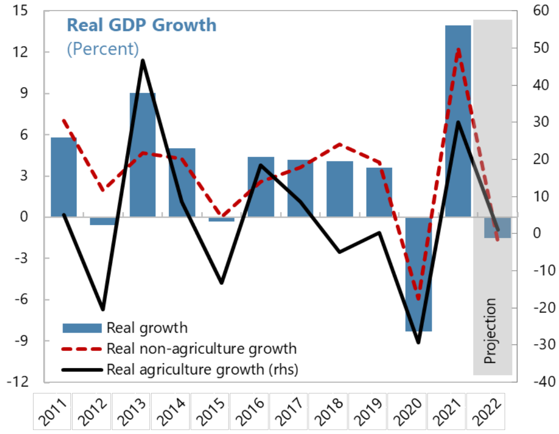
**38. The authorities' response to the cost-of-living crisis is strong**. Tariff adjustments to domestic gas and electricity prices were adopted to better reflect actual costs, while encouraging energy saving. The authorities are relying on three key social programs to alleviate the impact of increased energy prices and deteriorating living standards on the most vulnerable: the targeted social assistance program, the heating allowance, and the newly designed energy vulnerability reduction program. Increased budget allocations to these programs, which address specific pockets of vulnerability across the population, is appropriate, and the authorities should ensure strong implementation. Continued strengthening of contingency planning is essential to mitigate the risks ahead. In preparation of the winter season, the authorities are aptly building reserves of gas, taking advantage of current relatively favorable prices and available financing from international partners.

**39. The program remains on track, despite the challenging environment**. All end-September QPCs and ITs were met. The inflation consultation clause for end-September was also met. The authorities have completed, albeit some with delay, important end-September structural commitments on public investment management, the SOE sector reforms, and financial sector governance. Building on progress thus far, and highlighting the authorities' continued commitment, the reform agenda under the program was further strengthened with the proposal of six new structural benchmarks to guide implementation of reform priorities in areas of anti-corruption, fiscal governance, SOE reforms, and financial oversight. The authorities request a modification of indicative targets on the ceiling for general government wage bill and the floors on targeted social spending and developmental spending in 2023.

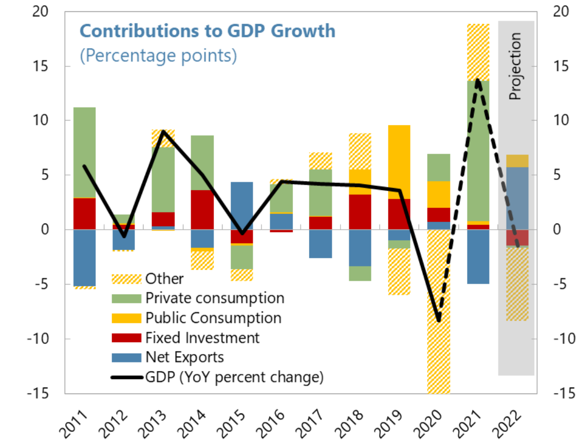
**40. Staff supports the completion of second review under the ECF/EFF program**. It also supports waiving the applicability of all end-December 2022 performance criteria and assesses that there is no clear evidence suggesting that these performance criteria will be missed. Despite significant risks to the program, authorities' strong ownership and firm commitment to reforms and sound crisis and economic management warrant continued Fund support.

## Figure 1. Moldova: Real Sector Developments

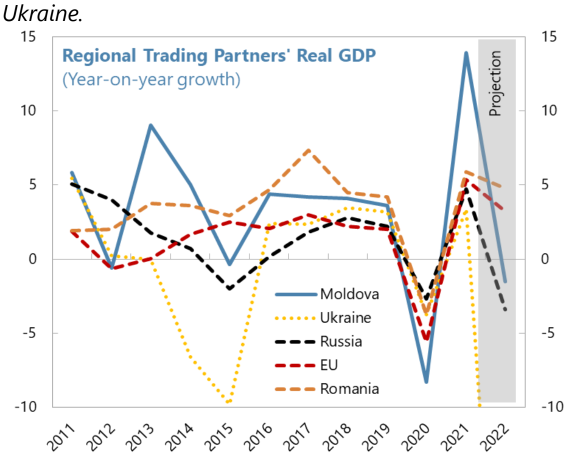
*Economic activity is expected to contract in 2022....*



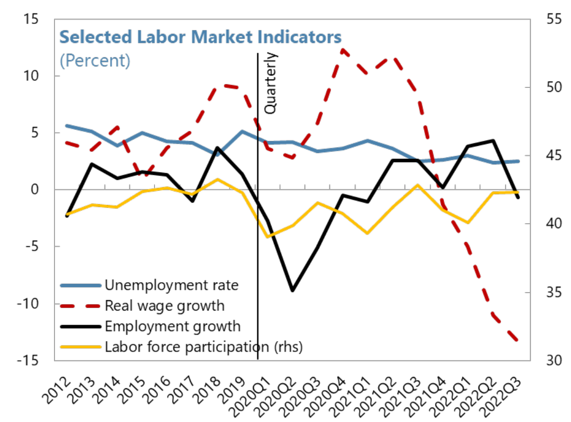

*....mainly on account of lower investment..*



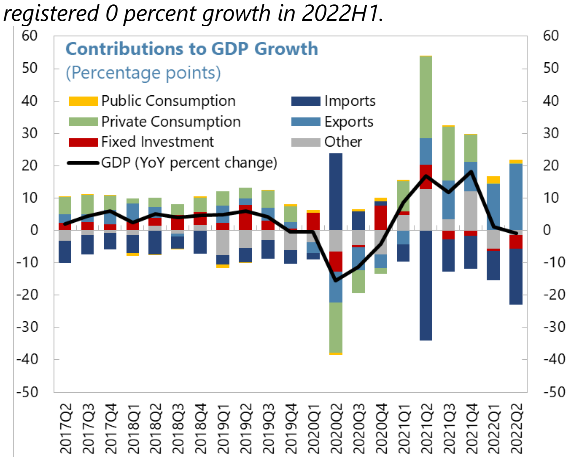

*Main trade partners are adversely affected by the war in Ukraine.*



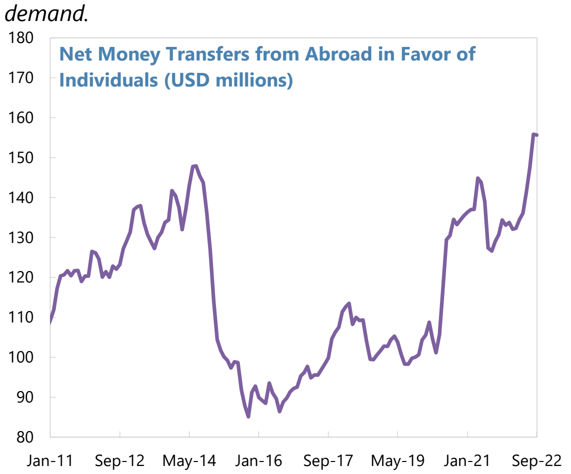

*Real wages fell, on account of the sharp inflation increase.*




*The recovery post-pandemic was strong, but economy registered 0 percent growth in 2022H1.*

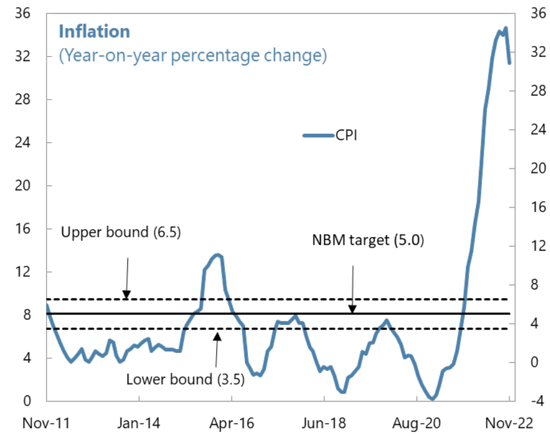



*Important foreign currency inflows are helping support demand.*

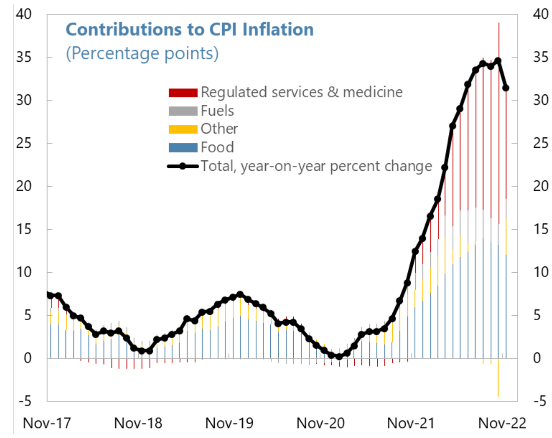


## Figure 2. Moldova: Monetary Developments

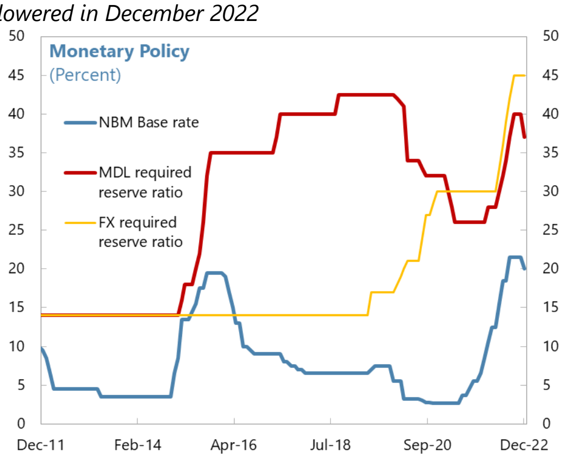
*Inflation decelerated in November 2022*



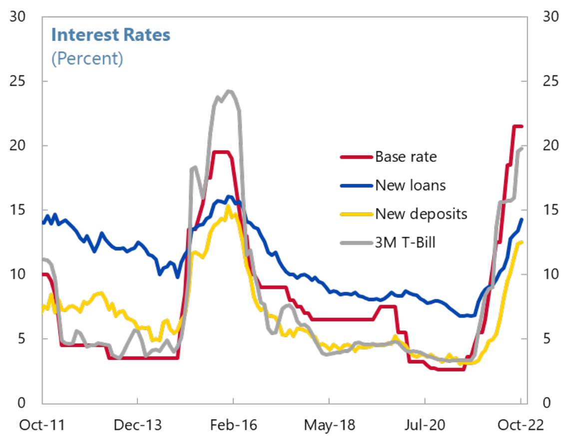

*…but remains high, supported by food and energy prices.*



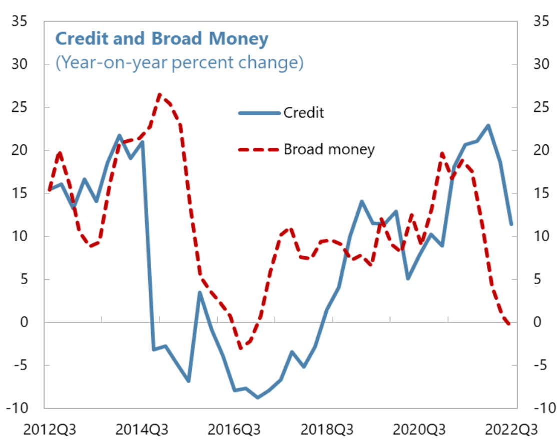

*The base rate and reserve requirements on FX were lowered in December 2022*



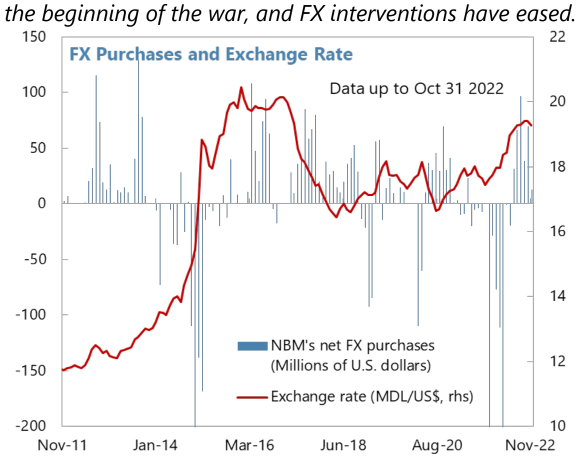

*Credit conditions remain tight*




*Liquidity in the economy has been under pressure.*

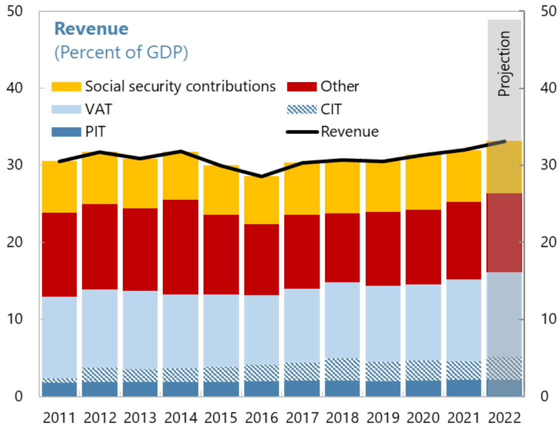



*The exchange rate depreciated by about 8 percent since the beginning of the war, and FX interventions have eased.*

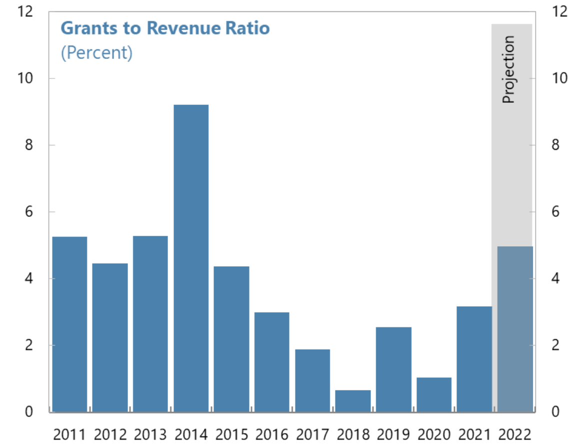


## Figure 3. Moldova: Fiscal Sector Developments

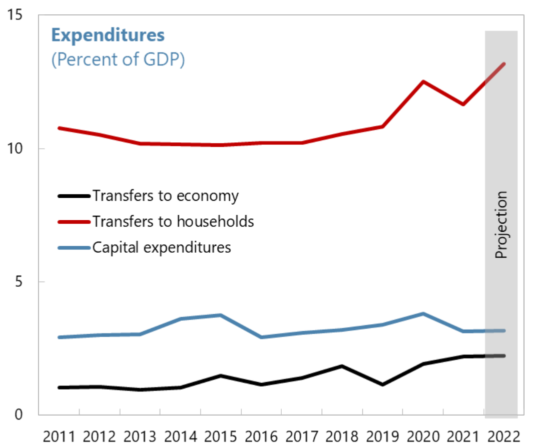
*Revenues are robust….*



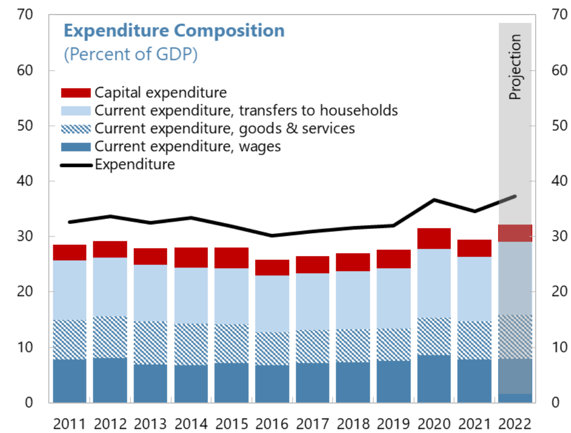

*….along with favorable external support in 2022.*



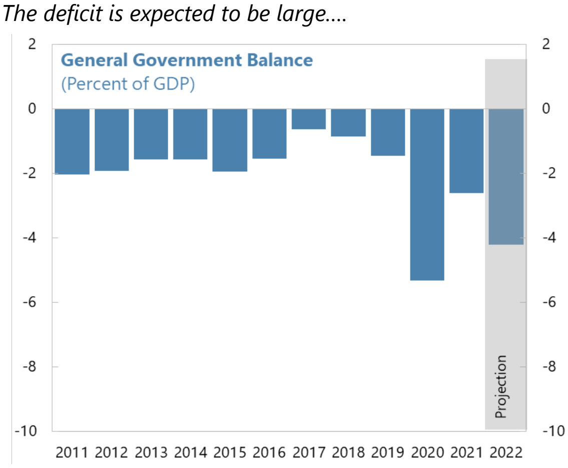

*Spending pressures have mounted….*



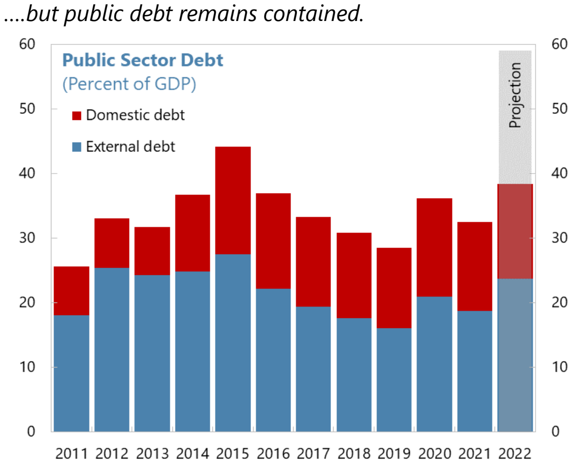

*…driven by multiple crises' demands on current spending.*




*The deficit is expected to be large….*

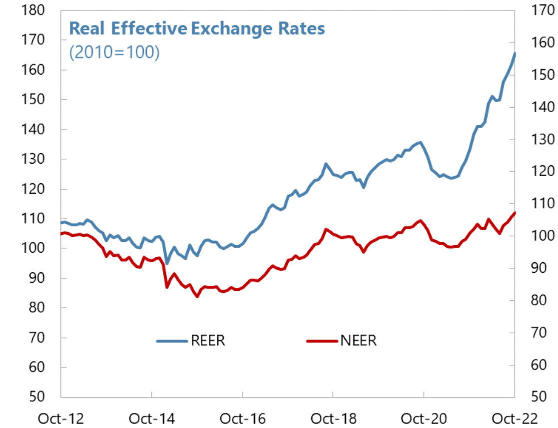



*….but public debt remains contained.*

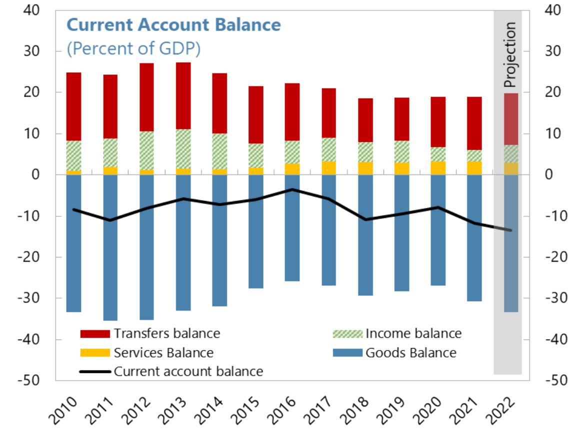


## Figure 4. Moldova: External Sector Developments

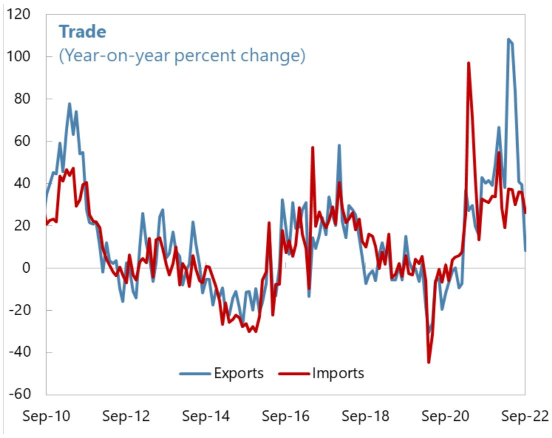
*The NEER and REER have recently strengthened, with easing pressures on the lei.*



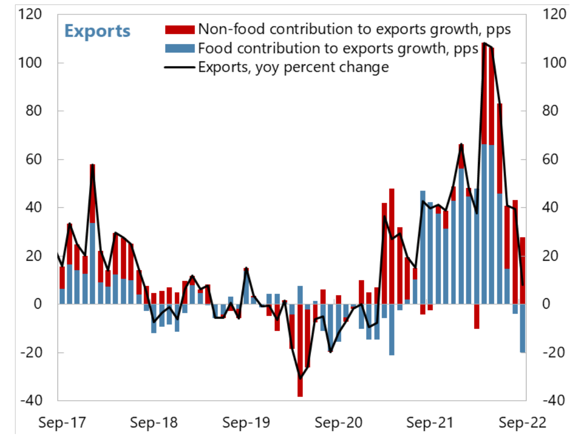

*The current account deficit is expected to worsen due to higher energy and food import bill.*



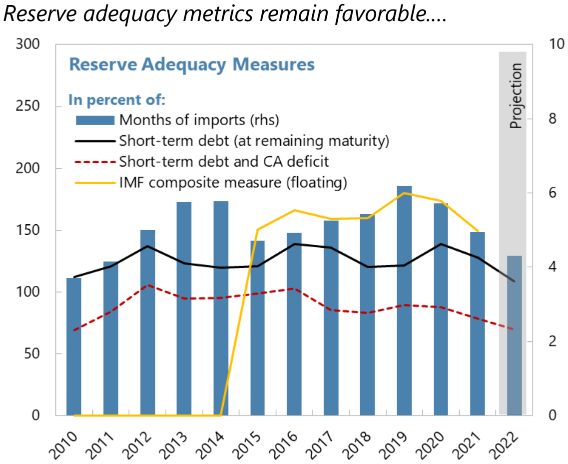

*Exports performed strongly through August….*



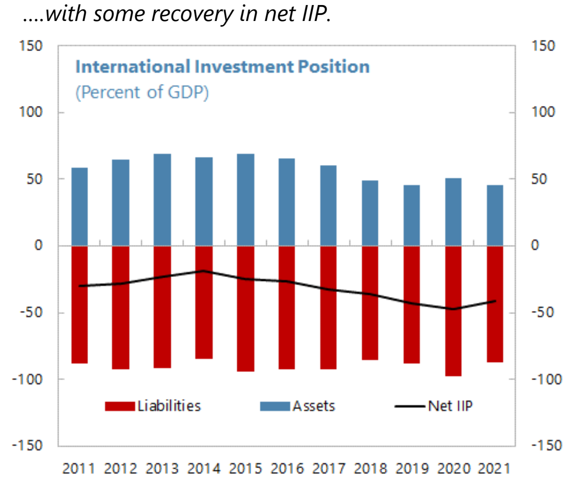

*….supported by both food and non-food product exports.*




*Reserve adequacy metrics remain favorable….*




*….with some recovery in net IIP.*



## Table 4. Moldova: Selected Economic Indicators, 2017–2027 1/

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (Percent change, unless otherwise indicated) | | | | | | | | | | |
| **Real Sector Indicators** | | | | | | | | | | | |
| Gross domestic product | | | | | | | | | | | |
| Real growth rate | 4.2 | 4.1 | 3.6 | -8.3 | 13.9 | -1.5 | 1.5 | 4.3 | 5.0 | 5.1 | 5.1 |
| Demand | 6.1 | 8.5 | 4.1 | -7.5 | 15.3 | -3.4 | 1.6 | 3.8 | 4.0 | 4.0 | 5.1 |
| Consumption | 5.6 | 3.2 | 3.7 | -7.9 | 13.2 | 0.7 | 2.9 | 3.8 | 4.6 | 4.6 | 4.7 |
| Private | 5.3 | -1.5 | -0.9 | 2.9 | 15.6 | -0.3 | 2.5 | 3.8 | 4.3 | 4.3 | 4.3 |
| Public | 13.6 | 15.7 | 47.6 | 16.1 | 2.0 | 5.5 | 5.0 | 4.0 | 6.4 | 5.9 | 6.5 |
| Gross fixed capital formation | 9.4 | 14.4 | 12.0 | 5.6 | 1.7 | -6.0 | 3.9 | 6.4 | 8.1 | 8.4 | 8.4 |
| Net Exports of goods and services | -10.9 | -14.3 | -3.8 | 2.8 | -21.1 | 10.2 | -1.9 | -2.1 | -0.5 | -0.1 | -5.2 |
| Exports of goods and services | 11.1 | 4.1 | 8.2 | -14.9 | 17.5 | 12.7 | 6.6 | 7.5 | 8.7 | 8.7 | 8.9 |
| Imports of goods and services | 11.0 | 8.4 | 6.2 | -9.5 | 19.2 | 1.9 | 4.5 | 5.1 | 5.2 | 5.2 | 7.5 |
| Nominal GDP (billions of Moldovan lei) | 176.0 | 189.1 | 206.3 | 199.7 | 241.9 | 274.0 | 308.7 | 339.6 | 376.2 | 417.0 | 462.3 |
| Nominal GDP (billions of U.S. dollars) | 9.5 | 11.3 | 11.7 | 11.5 | 13.7 | 14.3 | 14.4 | 14.8 | 16.0 | 17.2 | 18.5 |
| Consumer price index (average) | 6.5 | 3.6 | 4.8 | 3.8 | 5.1 | 28.5 | 13.8 | 5.0 | 5.0 | 5.0 | 5.0 |
| Consumer price index (end of period) | 7.3 | 0.9 | 7.5 | 0.4 | 13.9 | 30.0 | 8.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| GDP deflator | 5.0 | 3.2 | 5.3 | 5.6 | 6.3 | 15.0 | 11.0 | 5.5 | 5.5 | 5.5 | 5.5 |
| Average monthly wage (Moldovan lei) | 5695 | 6,443 | 7,356 | 8,104 | 8,619 | 9,328 | 10,775 | 11,800 | 13,000 | 14,325 | 14,325 |
| Average monthly wage (U.S. dollars) | 308 | 383 | 419 | 468 | 488 | 486 | 501 | 515 | 552 | 591 | 573 |
| Unemployment rate (annual average, percent) | 4.1 | 3.1 | 5.1 | 3.8 | 3.3 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| | (Percent of GDP) | | | | | | | | | | |
| **Saving-Investment Balance** | | | | | | | | | | | |
| Foreign saving | 5.8 | 10.8 | 9.5 | 7.9 | 11.7 | 13.4 | 11.8 | 11.5 | 9.9 | 8.7 | 8.3 |
| National saving | 16.1 | 15.8 | 15.6 | 14.8 | 17.0 | 13.3 | 13.6 | 13.5 | 13.6 | 13.7 | 14.2 |
| Private | 13.7 | 12.9 | 13.5 | 16.2 | 16.3 | 14.3 | 16.1 | 14.5 | 13.7 | 13.3 | 13.5 |
| Public | 2.4 | 2.9 | 2.2 | -1.3 | 0.7 | -1.1 | -2.5 | -1.0 | -0.1 | 0.4 | 0.7 |
| Gross investment | 21.9 | 26.6 | 25.1 | 22.7 | 28.7 | 26.6 | 25.4 | 25.0 | 23.6 | 22.4 | 22.5 |
| Private | 18.9 | 23.0 | 21.5 | 19.2 | 25.0 | 23.4 | 22.3 | 21.7 | 20.3 | 19.2 | 19.1 |
| Public | 3.0 | 3.6 | 3.6 | 3.5 | 3.7 | 3.3 | 3.1 | 3.2 | 3.3 | 3.2 | 3.4 |
| **Fiscal Indicators (General Government)** | | | | | | | | | | | |
| Primary balance | 0.5 | -0.2 | -0.8 | -4.7 | -2.0 | -3.4 | -5.3 | -3.7 | -2.9 | -2.6 | -2.3 |
| Overall balance | -0.7 | -0.9 | -1.5 | -5.3 | -2.6 | -4.2 | -6.0 | -4.6 | -3.8 | -3.4 | -3.2 |
| Stock of public and publicly guaranteed debt | 33.0 | 30.4 | 28.1 | 33.7 | 33.2 | 36.0 | 37.9 | 40.3 | 40.0 | 39.1 | 38.0 |
| | (Percent change, unless otherwise indicated) | | | | | | | | | | |
| **Financial Indicators** | | | | | | | | | | | |
| Broad money (M3) | 9.4 | 7.8 | 8.2 | 19.6 | 11.3 | -3.0 | ... | ... | ... | ... | ... |
| Velocity (GDP/end-period M3; ratio) | 2.3 | 2.3 | 2.3 | 1.9 | 2.0 | 2.4 | ... | ... | ... | ... | ... |
| Reserve money | 11.2 | 17.7 | 7.6 | 18.8 | 3.4 | 25.2 | ... | ... | ... | ... | ... |
| Credit to the economy | -3.4 | 4.1 | 11.5 | 10.3 | 21.0 | 6.3 | ... | ... | ... | ... | ... |
| Credit to the economy, percent of GDP | 21.6 | 21.0 | 21.4 | 24.4 | 24.4 | 22.9 | ... | ... | ... | ... | ... |
| | (Millions of U.S. dollars, unless otherwise indicated) | | | | | | | | | | |
| **External Sector Indicators 2/** | | | | | | | | | | | |
| Current account balance | -555 | -1212 | -1112 | -906 | -1595 | -1911 | -1699 | -1704 | -1589 | -1494 | -1533 |
| Current account balance (percent of GDP) | -5.8 | -10.8 | -9.5 | -7.9 | -11.7 | -13.4 | -11.8 | -11.5 | -9.9 | -8.7 | -8.3 |
| Remittances and compensation of employees (net) | 1,494 | 1,669 | 1,729 | 1,669 | 1,791 | 2,043 | 2,203 | 2,377 | 2,529 | 2,666 | 2,812 |
| Gross official reserves 3/ | 2,803 | 2,995 | 3,060 | 3,784 | 3,902 | 3,530 | 3,932 | 4,312 | 4,371 | 4,533 | 4,697 |
| Gross official reserves (months of imports) | 5.3 | 5.4 | 6.2 | 5.7 | 4.9 | 4.3 | 4.5 | 4.7 | 4.5 | 4.4 | 4.5 |
| Exchange rate (Moldovan lei per USD, period average) | 18.5 | 16.8 | 17.6 | 17.3 | 17.7 | ... | ... | ... | ... | ... | ... |
| Exchange rate (Moldovan lei per USD, end of period) | 17.1 | 17.1 | 17.2 | 17.2 | 17.7 | ... | ... | ... | ... | ... | ... |
| Real effective exch.rate (average, percent change) | 10.5 | 9.1 | 2.1 | 5.3 | -1.7 | ... | ... | ... | ... | ... | ... |
| External debt (percent of GDP) 4/ | 72.8 | 67.6 | 65.1 | 73.5 | 64.2 | 69.7 | 73.9 | 77.3 | 75.3 | 71.1 | 66.9 |
| Debt service (percent of exports of goods and services) | 12.6 | 14.7 | 13.4 | 15.9 | 10.8 | 9.7 | 11.1 | 11.6 | 11.6 | 12.5 | 11.4 |

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

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

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

4/ Includes private and public and publicly guaranteed debt.

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

## Table 5a. Moldova: Balance of Payments, 2017–2027 1/

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

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| **Current Account Balance** | -555 | -1,212 | -1,112 | -906 | -1,595 | -1,911 | -1,699 | -1,704 | -1,589 | -1,494 | -1,533 |
| Merchandise trade balance | -2,559 | -3,294 | -3,312 | -3,094 | -4,190 | -4,748 | -4,969 | -5,122 | -5,296 | -5,505 | -5,884 |
| Exports | 1,866 | 1,975 | 2,118 | 1,944 | 2,562 | 3,275 | 3,379 | 3,569 | 3,801 | 4,059 | 4,343 |
| Imports | 4,425 | 5,269 | 5,430 | 5,039 | 6,753 | 8,023 | 8,348 | 8,691 | 9,097 | 9,564 | 10,227 |
| Services balance | 304 | 356 | 351 | 382 | 458 | 415 | 594 | 722 | 865 | 1,031 | 1,226 |
| Exports of services | 1,253 | 1,477 | 1,544 | 1,278 | 1,635 | 1,874 | 2,133 | 2,416 | 2,741 | 3,111 | 3,532 |
| Imports of services | 949 | 1,121 | 1,193 | 895 | 1,177 | 1,459 | 1,540 | 1,694 | 1,876 | 2,080 | 2,306 |
| Income balance | 556 | 536 | 615 | 390 | 372 | 620 | 792 | 903 | 975 | 1,056 | 1,140 |
| Compensation of employees | 762 | 854 | 878 | 730 | 763 | 933 | 1,026 | 1,129 | 1,219 | 1,317 | 1,422 |
| Income on direct and portfolio investment | -204 | -316 | -262 | -339 | -390 | -311 | -232 | -225 | -244 | -260 | -281 |
| Other income | -2 | -2 | -2 | -1 | -2 | -2 | -2 | -1 | -1 | -1 | -1 |
| Current transfer balance | 1,143 | 1,190 | 1,234 | 1,415 | 1,766 | 1,803 | 1,884 | 1,793 | 1,868 | 1,925 | 1,985 |
| Remittances | 732 | 815 | 851 | 939 | 1,028 | 1,110 | 1,177 | 1,247 | 1,310 | 1,349 | 1,390 |
| Budget transfers | 144 | 100 | 173 | 95 | 111 | 251 | 226 | 36 | 33 | 35 | 38 |
| Other transfers | 268 | 275 | 210 | 381 | 626 | 441 | 481 | 510 | 525 | 541 | 557 |
| **Capital and Financial Account Balance** | -1,013 | -1,391 | -1,167 | -1,238 | -1,664 | -1,086 | -1,550 | -1,650 | -1,636 | -1,715 | -1,770 |
| Capital account balance | -21 | -36 | -55 | -66 | -51 | -38 | -46 | -53 | -53 | -56 | -59 |
| Financial account balance (inflows: "-") | -1,034 | -1,427 | -1,222 | -1,304 | -1,715 | -1,125 | -1,596 | -1,703 | -1,689 | -1,771 | -1,829 |
| Foreign direct investment, net (inflows: "-") | -139 | -259 | -468 | -152 | -239 | -63 | -212 | -230 | -259 | -312 | -328 |
| Portfolio investment and derivatives, net | -1 | 5 | 5 | 0 | -6 | -4 | 0 | -1 | 3 | 3 | 4 |
| Other investment, net | -895 | -1,173 | -759 | -1,153 | -1,470 | -1,058 | -1,383 | -1,472 | -1,433 | -1,462 | -1,505 |
| Loans | -166 | -111 | -119 | -208 | -148 | -136 | -153 | -92 | 108 | 167 | 153 |
| General government, net | -121 | 17 | 1 | -100 | -51 | -102 | -99 | 37 | 229 | 299 | 285 |
| Private sector, net | -45 | -128 | -120 | -108 | -97 | -34 | -54 | -129 | -121 | -131 | -132 |
| Other capital flows, net | -729 | -1,061 | -640 | -944 | -1,321 | -922 | -1,230 | -1,380 | -1,540 | -1,629 | -1,658 |
| Errors and omissions | 76 | 47 | 18 | -84 | 39 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Overall Balance** | 534 | 226 | 73 | 248 | 107 | -824 | -149 | -54 | 46 | 222 | 237 |
| **Financing** | -534 | -226 | -73 | -248 | -107 | 824 | 149 | 54 | -46 | -222 | -237 |
| Gross international reserves (increase: "+") | 531 | 236 | 60 | 637 | 206 | -371 | 401 | 380 | 59 | 162 | 164 |
| Use of Fund credit, net | -44 | -55 | -36 | 186 | 31 | 165 | 161 | 301 | 13 | -60 | -73 |
| Monetary authorities | -44 | -41 | -37 | -43 | -34 | -5 | -11 | 252 | 40 | -30 | -38 |
| Purchases | 18 | 21 | 18 | 7 | 0 | 0 | 0 | 269 | 60 | 0 | 0 |
| Repurchases | 62 | 62 | 55 | 50 | 34 | 5 | 11 | 17 | 20 | 30 | 38 |
| General government | 0 | -14 | 1 | 229 | 65 | 171 | 172 | 49 | -27 | -30 | -35 |
| Purchases | 26 | 13 | 28 | 254 | 81 | 173 | 216 | 135 | 30 | 0 | 0 |
| Repurchases | 26 | 27 | 26 | 25 | 17 | 3 | 44 | 85 | 57 | 30 | 35 |
| Exceptional financing | 113 | 65 | 24 | 161 | 62 | 287 | 390 | 132 | 0 | 0 | 0 |
| European Commission | 0 | 0 | 22 | 83 | 53 | 37 | 143 | 46 | 0 | 0 | 0 |
| World Bank | 5 | 60 | 1 | 54 | 0 | 150 | 100 | 40 | 0 | 0 | 0 |
| Other official bilateral donors | 108 | 5 | 0 | 24 | 10 | 100 | 146 | 46 | 0 | 0 | 0 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | | | |
| **Memorandum Items:** | | | | | | | | | | | |
| Gross official reserves (millions of U.S. dollars) 2/ | 2,803 | 2,995 | 3,060 | 3,784 | 3,902 | 3,530 | 3,932 | 4,312 | 4,371 | 4,533 | 4,697 |
| Months of imports of good and services | 5.3 | 5.4 | 6.2 | 5.7 | 4.9 | 4.3 | 4.5 | 4.7 | 4.5 | 4.4 | 4.5 |
| Percent of short term debt and CA deficit | 85.5 | 83.2 | 89.3 | 87.5 | 78.6 | 70.9 | 74.0 | 78.0 | 73.5 | 76.8 | 104.6 |
| Pct of short-term debt at remaining maturity | 135.7 | 120.4 | 121.4 | 138.6 | 127.7 | 107.6 | 109.0 | 109.4 | 98.1 | 103.7 | 104.6 |
| Pct of the IMF composite measure (floating) 3/ | 165.8 | 159.3 | 159.8 | 179.8 | 173.6 | 147.6 | 151.6 | 153.3 | 145.9 | 143.9 | 145.4 |
| Current account balance | -5.8 | -10.8 | -9.5 | -7.9 | -11.7 | -13.4 | -11.8 | -11.5 | -9.9 | -8.7 | -8.3 |
| Goods and services trade balance | -23.7 | -26.1 | -25.2 | -23.5 | -27.3 | -30.4 | -30.5 | -29.7 | -27.7 | -26.0 | -25.2 |
| Export of goods and services | 32.8 | 30.7 | 31.2 | 27.9 | 30.7 | 36.1 | 38.4 | 40.3 | 40.9 | 41.6 | 42.6 |
| Import of goods and services | 56.5 | 56.8 | 56.4 | 51.5 | 58.0 | 66.4 | 68.9 | 70.0 | 68.6 | 67.6 | 67.7 |
| Foreign direct investment balance | 1.5 | 2.3 | 4.0 | 1.3 | 1.7 | 0.4 | 1.5 | 1.6 | 1.6 | 1.8 | 1.8 |
| | (Percent change of amounts in U.S.dollars, unless otherwise indicated) | | | | | | | | | | |
| Exports of goods | 19.8 | 5.8 | 7.2 | -8.2 | 31.8 | 27.8 | 3.2 | 5.6 | 6.5 | 6.8 | 7.0 |
| Exports of services | 17.6 | 17.9 | 4.5 | -17.2 | 27.9 | 14.7 | 13.8 | 13.3 | 13.4 | 13.5 | 13.5 |
| Imports of goods | 21.7 | 19.1 | 3.0 | -7.2 | 34.0 | 18.8 | 4.1 | 4.1 | 4.7 | 5.1 | 6.9 |
| Imports of services | 12.3 | 18.2 | 6.4 | -24.9 | 31.5 | 24.0 | 5.5 | 10.0 | 10.8 | 10.8 | 10.9 |
| Remittances and compensation | 15.7 | 14.8 | 14.7 | 14.5 | 13.1 | 14.3 | 15.3 | 16.0 | 15.8 | 15.5 | 15.2 |
| Debt service (pct of exports of goods and services) | 12.6 | 14.7 | 13.4 | 15.9 | 10.8 | 9.7 | 11.1 | 11.6 | 11.6 | 12.5 | 11.4 |

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

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

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

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

## Table 5b. Moldova: Balance of Payments, 2017–2027 1/

(Percent of GDP, unless otherwise indicated)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| **Current Account Balance** | -5.8 | -10.8 | -9.5 | -7.9 | -11.7 | -13.4 | -11.8 | -11.5 | -9.9 | -8.7 | -8.3 |
| Merchandise trade balance | -26.9 | -29.3 | -28.2 | -26.8 | -30.6 | -33.3 | -34.6 | -34.5 | -33.1 | -32.0 | -31.8 |
| Exports | 19.6 | 17.6 | 18.0 | 16.9 | 18.7 | 22.9 | 23.5 | 24.1 | 23.8 | 23.6 | 23.5 |
| Imports | 46.5 | 46.8 | 46.3 | 43.7 | 49.4 | 56.2 | 58.1 | 58.6 | 56.9 | 55.6 | 55.3 |
| Services balance | 3.2 | 3.2 | 3.0 | 3.3 | 3.3 | 2.9 | 4.1 | 4.9 | 5.4 | 6.0 | 6.6 |
| Exports of services | 13.2 | 13.1 | 13.2 | 11.1 | 11.9 | 13.1 | 14.9 | 16.3 | 17.1 | 18.1 | 19.1 |
| Imports of services | 10.0 | 10.0 | 10.2 | 7.8 | 8.6 | 10.2 | 10.7 | 11.4 | 11.7 | 12.1 | 12.5 |
| Income balance | 5.8 | 4.8 | 5.2 | 3.4 | 2.7 | 4.3 | 5.5 | 6.1 | 6.1 | 6.1 | 6.2 |
| Compensation of employees | 8.0 | 7.6 | 7.5 | 6.3 | 5.6 | 6.5 | 7.1 | 7.6 | 7.6 | 7.6 | 7.7 |
| Income on direct and portfolio investment | -2.1 | -2.8 | -2.2 | -2.9 | -2.9 | -2.2 | -1.6 | -1.5 | -1.5 | -1.5 | -1.5 |
| Other income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current transfer balance | 12.0 | 10.6 | 10.5 | 12.3 | 12.9 | 12.6 | 13.1 | 12.1 | 11.7 | 11.2 | 10.7 |
| Remittances | 7.7 | 7.2 | 7.3 | 8.1 | 7.5 | 7.8 | 8.2 | 8.4 | 8.2 | 7.8 | 7.5 |
| Budget transfers | 1.5 | 0.9 | 1.5 | 0.8 | 0.8 | 1.8 | 1.6 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other transfers | 2.8 | 2.4 | 1.8 | 3.3 | 4.6 | 3.1 | 3.4 | 3.4 | 3.3 | 3.1 | 3.0 |
| **Capital and Financial Account Balance** | -10.6 | -12.4 | -9.9 | -10.7 | -12.2 | -7.6 | -10.8 | -11.1 | -10.2 | -10.0 | -9.6 |
| Capital account balance | -0.2 | -0.3 | -0.5 | -0.6 | -0.4 | -0.3 | -0.3 | -0.4 | -0.3 | -0.3 | -0.3 |
| Financial account balance | -10.9 | -12.7 | -10.4 | -11.3 | -12.5 | -7.9 | -11.1 | -11.5 | -10.6 | -10.3 | -9.9 |
| Foreign direct investment, net (inflows: "-") | -1.5 | -2.3 | -4.0 | -1.3 | -1.7 | -0.4 | -1.5 | -1.6 | -1.6 | -1.8 | -1.8 |
| Portfolio investment and derivatives, net | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investment, net | -9.4 | -10.4 | -6.5 | -10.0 | -10.7 | -7.4 | -9.6 | -9.9 | -9.0 | -8.5 | -8.1 |
| Loans | -1.7 | -1.0 | -1.0 | -1.8 | -1.1 | -1.0 | -1.1 | -0.6 | 0.7 | 1.0 | 0.8 |
| General government, net | -1.3 | 0.1 | 0.0 | -0.9 | -0.4 | -0.7 | -0.7 | 0.2 | 1.4 | 1.7 | 1.5 |
| Private sector, net | -0.5 | -1.1 | -1.0 | -0.9 | -0.7 | -0.2 | -0.4 | -0.9 | -0.8 | -0.8 | -0.7 |
| Other capital flows, net | -7.7 | -9.4 | -5.5 | -8.2 | -9.7 | -6.5 | -8.6 | -9.3 | -9.6 | -9.5 | -9.0 |
| Errors and omissions | 0.8 | 0.4 | 0.1 | -0.7 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall Balance** | 5.6 | 2.0 | 0.6 | 2.2 | 0.8 | -5.8 | -1.0 | -0.4 | 0.3 | 1.3 | 1.3 |
| **Financing** | -5.6 | -2.0 | -0.6 | -2.2 | -0.8 | 5.8 | 1.0 | 0.4 | -0.3 | -1.3 | -1.3 |
| Gross international reserves (increase: "+") | 5.6 | 2.1 | 0.5 | 5.5 | 1.5 | -2.6 | 2.8 | 2.6 | 0.4 | 0.9 | 0.9 |
| Use of Fund credit, net | -0.5 | -0.5 | -0.3 | 1.6 | 0.2 | 1.2 | 1.1 | 2.0 | 0.1 | -0.3 | -0.4 |
| Monetary authorities | -0.5 | -0.4 | -0.3 | -0.4 | -0.2 | 0.0 | -0.1 | 1.7 | 0.2 | -0.2 | -0.2 |
| Purchases | 0.2 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 1.8 | 0.4 | 0.0 | 0.0 |
| Repurchases | 0.6 | 0.5 | 0.5 | 0.4 | 0.2 | 0.0 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| General government | 0.0 | -0.1 | 0.0 | 2.0 | 0.5 | 1.2 | 1.2 | 0.3 | -0.2 | -0.2 | -0.2 |
| Purchases | 0.3 | 0.1 | 0.2 | 2.2 | 0.6 | 1.2 | 1.5 | 0.9 | 0.2 | 0.0 | 0.0 |
| Repurchases | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.0 | 0.3 | 0.6 | 0.4 | 0.2 | 0.2 |
| Exceptional financing | 1.2 | 0.6 | 0.2 | 1.4 | 0.5 | 2.0 | 2.7 | 0.9 | 0.0 | 0.0 | 0.0 |
| o/w | | | | | | | | | | | |
| European Commission | 0.0 | 0.0 | 0.2 | 0.7 | 0.4 | 0.3 | 1.0 | 0.3 | 0.0 | 0.0 | 0.0 |
| World Bank | 0.1 | 0.5 | 0.0 | 0.5 | 0.0 | 1.1 | 0.7 | 0.3 | 0.0 | 0.0 | 0.0 |
| Other official bilateral donors | 1.1 | 0.0 | 0.0 | 0.2 | 0.1 | 0.7 | 1.0 | 0.3 | 0.0 | 0.0 | 0.0 |
| **Memorandum Items:** | | | | | | | | | | | |
| Gross official reserves (millions of U.S. dollars) 2/ | 2,803 | 2,995 | 3,060 | 3,784 | 3,902 | 3,530 | 3,932 | 4,312 | 4,371 | 4,533 | 4,697 |
| Months of imports of good and services | 5.3 | 5.4 | 6.2 | 5.7 | 4.9 | 4.3 | 4.5 | 4.7 | 4.5 | 4.4 | 4.5 |
| Percent of short term debt and CA deficit | 85.5 | 83.2 | 89.3 | 87.5 | 78.6 | 70.9 | 74.0 | 78.0 | 73.5 | 76.8 | 104.6 |
| Pct of short-term debt at remaining maturity | 135.7 | 120.4 | 121.4 | 138.6 | 127.7 | 107.6 | 109.0 | 109.4 | 98.1 | 103.7 | 104.6 |
| Pct of the IMF composite measure (floating) 3/ | 165.8 | 159.3 | 159.8 | 179.8 | 173.6 | 147.6 | 151.6 | 153.3 | 145.9 | 143.9 | 145.4 |
| Current account balance | -5.8 | -10.8 | -9.5 | -7.9 | -11.7 | -13.4 | -11.8 | -11.5 | -9.9 | -8.7 | -8.3 |
| Goods and services trade balance | -23.7 | -26.1 | -25.2 | -23.5 | -27.3 | -30.4 | -30.5 | -29.7 | -27.7 | -26.0 | -25.2 |
| Export of goods and services | 32.8 | 30.7 | 31.2 | 27.9 | 30.7 | 36.1 | 38.4 | 40.3 | 40.9 | 41.6 | 42.6 |
| Import of goods and services | 56.5 | 56.8 | 56.4 | 51.5 | 58.0 | 66.4 | 68.9 | 70.0 | 68.6 | 67.6 | 67.7 |
| Foreign direct investment balance | 1.5 | 2.3 | 4.0 | 1.3 | 1.7 | 0.4 | 1.5 | 1.6 | 1.6 | 1.8 | 1.8 |
| (Percent change of amounts in U.S.dollars, unless otherwise indicated) | | | | | | | | | | | |
| Exports of goods | 19.8 | 5.8 | 7.2 | -8.2 | 31.8 | 27.8 | 3.2 | 5.6 | 6.5 | 6.8 | 7.0 |
| Exports of services | 17.6 | 17.9 | 4.5 | -17.2 | 27.9 | 14.7 | 13.8 | 13.3 | 13.4 | 13.5 | 13.5 |
| Imports of goods | 21.7 | 19.1 | 3.0 | -7.2 | 34.0 | 18.8 | 4.1 | 4.1 | 4.7 | 5.1 | 6.9 |
| Imports of services | 12.3 | 18.2 | 6.4 | -24.9 | 31.5 | 24.0 | 5.5 | 10.0 | 10.8 | 10.8 | 10.9 |
| Remittances and compensation | 15.7 | 14.8 | 14.7 | 14.5 | 13.1 | 14.3 | 15.3 | 16.0 | 15.8 | 15.5 | 15.2 |
| Remittances | 6.9 | 11.3 | 4.5 | 10.3 | 9.5 | 8.0 | 6.0 | 6.0 | 5.0 | 3.0 | 3.0 |
| Compensation of employees | 18.8 | 12.1 | 2.8 | -16.8 | 4.5 | 22.3 | 10.0 | 10.0 | 8.0 | 8.0 | 8.0 |
| Debt service (pct of exports of goods and services) | 12.6 | 14.7 | 13.4 | 15.9 | 10.8 | 9.7 | 11.1 | 11.6 | 11.6 | 12.5 | 11.4 |

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

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

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

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

## Table 6a. Moldova: General Government Budget, 2017–2027
(Millions of Moldovan lei, unless otherwise indicated)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | First review | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| **Revenues and Grants** | 53,379 | 57,996 | 62,949 | 62,655 | 77,378 | 89,610 | 90,752 | 100,658 | 108,635 | 121,554 | 135,811 | 150,413 |
| Revenues | 52,371 | 57,609 | 61,347 | 62,006 | 74,931 | 85,683 | 86,236 | 95,073 | 107,182 | 119,789 | 133,856 | 148,354 |
| Tax revenues | 49,990 | 54,816 | 58,458 | 58,987 | 71,233 | 81,695 | 82,248 | 91,036 | 102,781 | 114,956 | 128,543 | 142,511 |
| Personal income | 3,649 | 3,982 | 3,970 | 4,166 | 5,134 | 5,885 | 5,885 | 6,859 | 7,614 | 8,435 | 9,350 | 10,365 |
| Corporate income | 4,074 | 5,357 | 5,365 | 5,123 | 6,009 | 7,800 | 8,300 | 7,227 | 7,951 | 8,808 | 9,763 | 10,824 |
| Property tax | 546 | 564 | 580 | 582 | 756 | 756 | 751 | 776 | 850 | 941 | 1,044 | 1,157 |
| VAT | 16,870 | 18,616 | 20,183 | 19,775 | 25,509 | 29,591 | 29,891 | 33,634 | 37,152 | 41,382 | 46,704 | 51,778 |
| Excises | 5,950 | 5,683 | 6,222 | 6,469 | 7,608 | 8,206 | 7,964 | 9,607 | 12,128 | 14,308 | 16,146 | 17,900 |
| Foreign trade | 1,591 | 1,666 | 1,798 | 1,739 | 2,253 | 2,465 | 2,465 | 2,415 | 3,581 | 3,967 | 4,398 | 4,876 |
| Other | 1,796 | 1,793 | 1,935 | 1,898 | 2,125 | 2,144 | 2,144 | 2,208 | 2,429 | 2,691 | 2,983 | 3,307 |
| Social Fund contributions | 11,866 | 13,038 | 13,636 | 14,296 | 16,224 | 18,553 | 18,553 | 21,164 | 23,284 | 25,794 | 28,591 | 31,698 |
| Health Fund contributions | 3,648 | 4,118 | 4,768 | 4,940 | 5,615 | 6,295 | 6,295 | 7,147 | 7,791 | 8,631 | 9,567 | 10,606 |
| Non-tax revenues | 2,381 | 2,793 | 2,889 | 3,018 | 3,698 | 3,988 | 3,988 | 4,037 | 4,401 | 4,833 | 5,312 | 5,843 |
| NBM profit transfers | 0 | 0 | 0 | 218 | 407 | 147 | 147 | 0 | 0 | 0 | 0 | 0 |
| Grants | 1,009 | 387 | 1,603 | 650 | 2,447 | 3,927 | 4,515 | 5,586 | 1,453 | 1,765 | 1,955 | 2,059 |
| Budget support | 741 | 0 | 1,235 | 316 | 2,014 | 3,023 | 3,882 | 4,323 | 818 | 1,059 | 1,173 | 1,236 |
| Project | 268 | 387 | 368 | 334 | 434 | 904 | 633 | 1,263 | 635 | 706 | 782 | 824 |
| **Expenditure and Net Lending** | 54,524 | 59,609 | 65,972 | 73,275 | 83,714 | 106,829 | 102,293 | 119,186 | 124,257 | 135,849 | 149,989 | 165,388 |
| Current expenditure | 49,091 | 53,597 | 58,975 | 65,687 | 76,151 | 96,204 | 93,633 | 109,285 | 112,515 | 121,902 | 133,486 | 145,936 |
| Wages | 12,506 | 13,733 | 15,649 | 17,214 | 18,776 | 21,775 | 21,775 | 25,618 | 28,187 | 31,224 | 34,611 | 38,372 |
| Goods and services | 10,587 | 11,209 | 12,080 | 13,276 | 16,683 | 19,341 | 17,694 | 20,760 | 23,207 | 26,084 | 28,758 | 31,322 |
| Interest payments | 1,959 | 1,526 | 1,641 | 1,707 | 1,941 | 2,861 | 2,811 | 5,456 | 3,990 | 4,360 | 4,701 | 5,401 |
| Domestic | 1,581 | 1,129 | 1,213 | 1,333 | 1,550 | 2,182 | 2,162 | 4,465 | 3,056 | 3,399 | 3,740 | 4,455 |
| Foreign | 378 | 397 | 428 | 374 | 391 | 679 | 648 | 991 | 933 | 961 | 961 | 946 |
| Transfers | 20,383 | 23,411 | 24,616 | 28,848 | 33,467 | 43,432 | 46,043 | 49,261 | 50,681 | 54,113 | 59,706 | 64,693 |
| Transfers to economy 1/ | 2,417 | 3,462 | 2,316 | 3,840 | 5,280 | 6,698 | 9,896 | 4,421 | 4,863 | 5,387 | 5,972 | 6,561 |
| Transfers to households | 17,966 | 19,949 | 22,301 | 25,008 | 28,187 | 36,734 | 36,147 | 44,840 | 45,818 | 48,726 | 53,734 | 58,132 |
| Other current expenditure | 3,655 | 3,718 | 4,989 | 4,642 | 5,285 | 8,795 | 5,311 | 8,191 | 6,450 | 6,120 | 5,710 | 6,148 |
| Capital expenditure | 5,434 | 6,012 | 6,997 | 7,588 | 7,563 | 10,625 | 8,660 | 9,901 | 11,742 | 13,948 | 16,503 | 19,452 |
| One-off revenue and expenditure items 2/ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Overall Balance (incl. one-off items)** | -1,145 | -1,613 | -3,023 | -10,620 | -6,335 | -17,219 | -11,542 | -18,528 | -15,621 | -14,296 | -14,178 | -14,975 |
| Overall balance (excl. one-off items) | -1,145 | -1,613 | -3,023 | -10,620 | -6,335 | -17,219 | -11,542 | -18,528 | -15,621 | -14,296 | -14,178 | -14,975 |
| Primary balance (excl. one-off items) | 807 | -293 | -1,595 | -9,469 | -4,843 | -14,860 | -9,183 | -16,341 | -12,707 | -11,078 | -10,698 | -10,726 |
| **Financing (excl. one-off items)** | -1,432 | 380 | 2,125 | 3,865 | -285 | 7,459 | 3,914 | 5,503 | 9,507 | 13,590 | 14,178 | 14,975 |
| Budget financing | -2,355 | -1,157 | 693 | 818 | -3,140 | 1,283 | 2,688 | -492 | 6,880 | 10,577 | 10,838 | 11,651 |
| Central government | -1,870 | -495 | 775 | 401 | -2,865 | 1,819 | 4,043 | -546 | 6,880 | 10,577 | 10,838 | 11,651 |
| Net domestic | -581 | 1,094 | 1,701 | 1,856 | -4,688 | 2,799 | 3,795 | 4,117 | 12,020 | 14,923 | 14,996 | 16,201 |
| Net foreign (excl. project loans) | -1,379 | -2,288 | -2,123 | -1,280 | 1,685 | -1,481 | 248 | -5,413 | -5,290 | -4,496 | -4,308 | -4,700 |
| Privatization | 153 | 140 | 85 | 151 | 138 | 500 | 0 | 750 | 150 | 150 | 150 | 150 |
| Others | -63 | 559 | 1,112 | -325 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Local governments | -285 | -136 | 211 | 0 | -227 | -755 | -755 | 54 | 0 | 0 | 0 | 0 |
| Privatization | 6 | 1 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Social Fund | -204 | -364 | -146 | 0 | -60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Health Fund | 4 | -163 | -147 | 417 | 12 | 219 | -600 | 0 | 0 | 0 | 0 | 0 |
| Net project loans | 924 | 1,538 | 1,613 | 3,047 | 2,855 | 6,177 | 1,227 | 5,995 | 2,627 | 3,013 | 3,340 | 3,324 |
| Of which: Onlending (through commercial banks) | -280 | -105 | -113 | -649 | -651 | -3,355 | -3,000 | -253 | -120 | -133 | -148 | -164 |
| **Financing Gap** | 2,577 | 1,233 | 898 | 6,754 | 6,621 | 9,759 | 7,628 | 13,025 | 6,114 | 705 | 0 | 0 |
| World Bank | 100 | 1,012 | 24 | 930 | 0 | 2,970 | 2,880 | 2,150 | 916 | 0 | 0 | 0 |
| IMF | 479 | 221 | 483 | 4,393 | 1,439 | 4,124 | 3,328 | 4,648 | 3,081 | 705 | 0 | 0 |
| Others 3/ | 1,998 | 0 | 391 | 1,431 | 5,181 | 2,665 | 1,420 | 6,227 | 2,118 | 0 | 0 | 0 |
| Financing for one-off items | | | | | | | | | | | | |
| Government securities issued | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | (Millions of Moldovan lei) | | | | | | |
| **Memorandum Items:** | | | | | | | | | | | | |
| Public and publicly guaranteed debt | 58,049 | 57,550 | 57,989 | 67,387 | 80,324 | 102,606 | 98,559 | 117,093 | 136,713 | 150,666 | 162,937 | 175,488 |

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

## Table 6b. Moldova: General Government Budget, 2017–2027
(Percent of GDP, unless otherwise stated)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Est. | First review | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| **Revenues and Grants** | 30.3 | 30.7 | 30.5 | 31.4 | 32.0 | 32.2 | 33.1 | 32.6 | 32.0 | 32.3 | 32.6 | 32.5 |
| Revenues | 29.8 | 30.5 | 29.7 | 31.0 | 31.0 | 30.8 | 31.5 | 30.8 | 31.6 | 31.8 | 32.1 | 32.1 |
| Tax revenues | 28.4 | 29.0 | 28.3 | 29.5 | 29.5 | 29.4 | 30.0 | 29.5 | 30.3 | 30.6 | 30.8 | 30.8 |
| Personal income | 2.1 | 2.1 | 1.9 | 2.1 | 2.1 | 2.1 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Corporate income | 2.3 | 2.8 | 2.6 | 2.6 | 2.5 | 2.8 | 3.0 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Property tax | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| VAT | 9.6 | 9.8 | 9.8 | 9.9 | 10.5 | 10.6 | 10.9 | 10.9 | 10.9 | 11.0 | 11.2 | 11.2 |
| Excises | 3.4 | 3.0 | 3.0 | 3.2 | 3.1 | 3.0 | 2.9 | 3.1 | 3.6 | 3.8 | 3.9 | 3.9 |
| Foreign trade | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 | 1.1 | 1.1 | 1.1 | 1.1 |
| Other | 1.0 | 0.9 | 0.9 | 1.0 | 0.9 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Social Fund contributions | 6.7 | 6.9 | 6.6 | 7.2 | 6.7 | 6.7 | 6.8 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 |
| Health Fund contributions | 2.1 | 2.2 | 2.3 | 2.5 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Non-tax revenues | 1.4 | 1.5 | 1.4 | 1.5 | 1.5 | 1.4 | 1.5 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| NBM profit transfers | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants | 0.6 | 0.2 | 0.8 | 0.3 | 1.0 | 1.4 | 1.6 | 1.8 | 0.4 | 0.5 | 0.5 | 0.4 |
| Budget support | 0.4 | 0.0 | 0.6 | 0.2 | 0.8 | 1.1 | 1.4 | 1.4 | 0.2 | 0.3 | 0.3 | 0.3 |
| Project | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Expenditure and Net Lending** | 31.0 | 31.5 | 32.0 | 36.7 | 34.6 | 38.4 | 37.3 | 38.6 | 36.6 | 36.1 | 36.0 | 35.8 |
| Current expenditure | 27.9 | 28.3 | 28.6 | 32.9 | 31.5 | 34.6 | 34.2 | 35.4 | 33.1 | 32.4 | 32.0 | 31.6 |
| Wages | 7.1 | 7.3 | 7.6 | 8.6 | 7.8 | 7.8 | 7.9 | 8.3 | 8.3 | 8.3 | 8.3 | 8.3 |
| Goods and services | 6.0 | 5.9 | 5.9 | 6.6 | 6.9 | 7.0 | 6.5 | 6.7 | 6.8 | 6.9 | 6.9 | 6.8 |
| Interest payments | 1.1 | 0.8 | 0.8 | 0.9 | 0.8 | 1.0 | 1.0 | 1.8 | 1.2 | 1.2 | 1.1 | 1.2 |
| Domestic | 0.9 | 0.6 | 0.6 | 0.7 | 0.6 | 0.8 | 0.8 | 1.4 | 0.9 | 0.9 | 0.9 | 1.0 |
| Foreign | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 |
| Transfers | 11.6 | 12.4 | 11.9 | 14.4 | 13.8 | 15.6 | 16.8 | 16.0 | 14.9 | 14.4 | 14.3 | 14.0 |
| Transfers to economy 1/ | 1.4 | 1.8 | 1.1 | 1.9 | 2.2 | 2.4 | 3.6 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| Transfers to households | 10.2 | 10.6 | 10.8 | 12.5 | 11.7 | 13.2 | 13.2 | 14.5 | 13.5 | 13.0 | 12.9 | 12.6 |
| Other current expenditure | 2.1 | 2.0 | 2.4 | 2.3 | 2.2 | 3.2 | 1.9 | 2.7 | 1.9 | 1.6 | 1.4 | 1.3 |
| Capital expenditure | 3.1 | 3.2 | 3.4 | 3.8 | 3.1 | 3.8 | 3.2 | 3.2 | 3.5 | 3.7 | 4.0 | 4.2 |
| One-off revenue and expenditure items 2/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall Balance (incl. one-off items)** | -0.7 | -0.9 | -1.5 | -5.3 | -2.6 | -6.2 | -4.2 | -6.0 | -4.6 | -3.8 | -3.4 | -3.2 |
| Overall balance (excl. one-off items) | -0.7 | -0.9 | -1.5 | -5.3 | -2.6 | -6.2 | -4.2 | -6.0 | -4.6 | -3.8 | -3.4 | -3.2 |
| Primary balance (excl. one-off items) | 0.5 | -0.2 | -0.8 | -4.7 | -2.0 | -5.3 | -3.4 | -5.3 | -3.7 | -2.9 | -2.6 | -2.3 |
| **Financing (excl. one-off items)** | -0.8 | 0.2 | 1.0 | 1.9 | -0.1 | 2.7 | 1.4 | 1.8 | 2.8 | 3.6 | 3.4 | 3.2 |
| Budget financing | -1.3 | -0.6 | 0.3 | 0.4 | -1.3 | 0.5 | 1.0 | -0.2 | 2.0 | 2.8 | 2.6 | 2.5 |
| Central government | -1.1 | -0.3 | 0.4 | 0.2 | -1.2 | 0.7 | 1.5 | -0.2 | 2.0 | 2.8 | 2.6 | 2.5 |
| Net domestic | -0.3 | 0.6 | 0.8 | 0.9 | -1.9 | 1.0 | 1.4 | 1.3 | 3.5 | 4.0 | 3.6 | 3.5 |
| Net foreign (excl. project loans) | -0.8 | -1.2 | -1.0 | -0.6 | 0.7 | -0.5 | 0.1 | -1.8 | -1.6 | -1.2 | -1.0 | -1.0 |
| Privatization | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.2 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.3 | 0.5 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Local governments | -0.2 | -0.1 | 0.1 | 0.0 | -0.1 | -0.3 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Privatization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Social Fund | -0.1 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Health Fund | 0.0 | -0.1 | -0.1 | 0.2 | 0.0 | 0.1 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net project loans | 0.5 | 0.8 | 0.8 | 1.5 | 1.2 | 2.2 | 0.4 | 1.9 | 0.8 | 0.8 | 0.8 | 0.7 |
| Of which: Onlending (through commercial banks) | -0.2 | -0.1 | -0.1 | -0.3 | -0.3 | -1.2 | -1.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financing Gap** | 1.5 | 0.7 | 0.4 | 3.4 | 2.7 | 3.5 | 2.8 | 4.2 | 1.8 | 0.2 | 0.0 | 0.0 |
| World Bank | 0.1 | 0.5 | 0.0 | 0.5 | 0.0 | 1.1 | 1.1 | 0.7 | 0.3 | 0.0 | 0.0 | 0.0 |
| IMF | 0.3 | 0.1 | 0.2 | 2.2 | 0.6 | 1.5 | 1.2 | 1.5 | 0.9 | 0.2 | 0.0 | 0.0 |
| Others 3/ | 1.1 | 0.0 | 0.2 | 0.7 | 2.1 | 1.0 | 0.5 | 2.0 | 0.6 | 0.0 | 0.0 | 0.0 |
| Financing for one-off items | | | | | | | | | | | | |
| Government securities issued | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Memorandum Items:** | | | | | | | | | | | | |
| Public and publicly guaranteed debt | 33.0 | 30.4 | 28.1 | 33.7 | 33.2 | 36.9 | 36.0 | 37.9 | 40.3 | 40.0 | 39.1 | 38.0 |

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

## Table 7. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2017–2022

(Millions of Moldovan lei, unless otherwise indicated)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| | | | | | Est. | Proj. |
| **National Bank of Moldova** | | | | | | |
| Net foreign assets 1/ | 42,153 | 45,700 | 47,526 | 62,701 | 67,592 | 72,607 |
| NFA (convertible) | 43,045 | 46,855 | 48,513 | 62,700 | 67,598 | 72,601 |
| Gross reserves | 47,936 | 51,345 | 52,654 | 65,132 | 69,240 | 73,914 |
| Reserve liabilities | 4,891 | 4,490 | 4,141 | 2,433 | 1,642 | 1,313 |
| Net domestic assets | -5,156 | -2,143 | -675 | -7,062 | -10,044 | -1,188 |
| Net claims on general government | 7,964 | 7,956 | 9,347 | 4,758 | 192 | 2,634 |
| Credit to banks | -9,217 | -6,299 | -5,403 | -6,383 | -3,704 | 5,539 |
| Other items (net) | -3,903 | -3,800 | -4,619 | -5,436 | -6,533 | -9,360 |
| Reserve money | 36,997 | 43,557 | 46,851 | 55,639 | 57,548 | 71,419 |
| Currency in circulation | 19,053 | 21,077 | 22,953 | 29,819 | 31,699 | 31,273 |
| Banks' reserves | 17,240 | 22,315 | 23,860 | 25,808 | 25,811 | 40,146 |
| Required reserves | 16,266 | 18,656 | 20,518 | 23,010 | 23,247 | 36,684 |
| Other reserves | 974 | 3,659 | 3,342 | 2,798 | 2,564 | 3,463 |
| **Monetary Survey** | | | | | | |
| Net foreign assets | 67,877 | 71,780 | 74,503 | 89,983 | 97,303 | 92,300 |
| NFA (convertible) | 61,871 | 65,793 | 68,481 | 82,939 | 90,658 | 85,322 |
| *Of which: commercial banks* | 18,826 | 18,938 | 19,968 | 20,240 | 23,061 | 12,722 |
| Foreign assets of commercial banks | 23,237 | 22,641 | 23,342 | 23,788 | 27,094 | 19,262 |
| Foreign liabilities of commercial banks | -4,411 | -3,703 | -3,374 | -3,548 | -4,034 | -6,540 |
| NFA (non-convertible) | 6,006 | 5,987 | 6,022 | 7,044 | 6,645 | 6,977 |
| Net domestic assets | 9,233 | 11,378 | 15,448 | 17,641 | 22,457 | 22,887 |
| Net claims on general government | 11,455 | 12,353 | 13,438 | 14,142 | 11,264 | 7,959 |
| Credit to economy | 38,101 | 39,656 | 44,207 | 48,744 | 58,996 | 62,731 |
| Moldovan lei | 21,657 | 22,779 | 27,302 | 31,139 | 40,713 | 41,029 |
| Foreign exchange | 16,445 | 16,878 | 16,905 | 17,605 | 18,283 | 21,702 |
| in U.S. dollars | 962 | 985 | 982 | 1,023 | 1,030 | 1,037 |
| Other items (net) | -40,323 | -40,631 | -42,198 | -45,245 | -47,803 | -47,803 |
| Broad money (M3) | 77,110 | 83,159 | 89,951 | 107,625 | 119,760 | 115,187 |
| Broad money (M2: excluding FCD) | 53,043 | 58,334 | 63,137 | 75,891 | 83,080 | 81,757 |
| Currency in circulation | 19,053 | 21,077 | 22,953 | 29,819 | 31,699 | 31,273 |
| Total deposits | 58,003 | 62,081 | 66,997 | 77,806 | 88,062 | 83,914 |
| Domestic currency deposits | 33,937 | 37,257 | 40,184 | 46,072 | 51,382 | 50,484 |
| Foreign currency deposits (FCD) | 24,067 | 24,824 | 26,814 | 31,734 | 36,680 | 33,430 |
| in U.S. dollars | 1,407 | 1,448 | 1,558 | 1,843 | 2,067 | 1,597 |
| **Memorandum Items:** | | | | | | |
| Reserve money growth (percent change; annual) | 11.2 | 17.7 | 7.6 | 18.8 | 3.4 | 24.1 |
| Broad money growth (percent change; annual) | 9.4 | 7.8 | 8.2 | 19.6 | 11.3 | -3.8 |
| Credit to economy (percent change, annual) | -3.4 | 4.1 | 11.5 | 10.3 | 21.0 | 6.3 |
| in lei | 0.0 | 5.2 | 19.9 | 14.1 | 30.7 | 0.8 |
| in foreign exchange ($ equivalent) | 8.0 | 2.4 | -0.2 | 4.1 | 0.7 | 0.6 |
| Gross international reserves (millions of U.S. dollars) | 2,803 | 2,995 | 3,060 | 3,784 | 3,902 | 3,530 |
| Percent of domestic-currency broad money | 90 | 88 | 83 | 86 | 83 | 90 |
| Broad money multiplier | 2.1 | 1.9 | 1.9 | 1.9 | 2.1 | 1.6 |

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

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

## Table 8. Moldova: Financial Soundness Indicators, 2015–2022

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

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

Source: National Bank of Moldova.

## Table 9. External Finance Requirements and Sources, 2016–2026

(Millions of U.S. dollars)

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Proj. | | |
| Gross Financing Requirement 1/ | 528 | 795 | 1545 | 1511 | 1296 | 1943 | 2319 | 2156 | 2244 | 2154 | 2101 |
| of which: fiscal financing requirements | 154 | 139 | 73 | 51 | 387 | 375 | 397 | 606 | 267 | 30 | 0 |
| Identified Financing Sources | 847 | 1132 | 1683 | 1431 | 1497 | 1887 | 1284 | 1754 | 2217 | 2153 | 2263 |
| Change in Gross Reserves (increase = +) | 531 | 531 | 236 | 60 | 637 | 206 | -371 | 401 | 380 | 59 | 162 |
| Financing Gap | 212 | 193 | 98 | 141 | 437 | 262 | 663 | 803 | 407 | 60 | 0 |
| Official Financing | 212 | 193 | 98 | 141 | 437 | 262 | 663 | 803 | 407 | 60 | 0 |
| Identified program financing | 177 | 150 | 65 | 94 | 182 | 181 | 490 | 587 | 138 | 0 | 0 |
| European Commission | 47 | 36 | 0 | 93 | 104 | 171 | 132 | 297 | 51 | 0 | 0 |
| World Bank | 62 | 5 | 60 | 1 | 54 | 0 | 159 | 117 | 40 | 0 | 0 |
| Other bilateral donors | 68 | 108 | 5 | 0 | 24 | 10 | 198 | 173 | 46 | 0 | 0 |
| Fund Program | 35 | 44 | 33 | 46 | 255 | 81 | 173 | 216 | 269 | 60 | 0 |

Sources: Moldovan authorities and IMF staff projections.

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

## Table 10. Moldova: Decomposition of Public Debt and Debt Service by Creditor, 2021–23 1/
(Millions of U.S. dollars, unless otherwise indicated)

| | Debt Stock (end of period) | | | Debt Service | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| | | *(Percent total debt)* | *(Percent GDP)* | | | | *(Percent GDP)* | | |
| **Total** | 4611.3 | 100.0 | 33.7 | 1925.4 | 1704.6 | 2060.7 | 14.1 | 11.7 | 13.4 |
| **External** | 2650.9 | 57.5 | 19.4 | 226.0 | 205.3 | 342.3 | 1.7 | 1.4 | 2.2 |
| Multilateral creditors[2,3] | 2532.1 | 54.9 | 18.5 | 154.4 | 170.9 | 332.1 | 1.1 | 1.2 | 2.2 |
| IMF | 832.0 | 18.0 | 6.1 | | | | | | |
| World Bank | 813.5 | 17.6 | 5.9 | | | | | | |
| ADB/AfDB/IADB | 0.0 | 0.0 | 0.0 | | | | | | |
| Other Multilaterals | 886.6 | 19.2 | 6.5 | | | | | | |
| *o/w: list largest two creditors* | 580.7 | 12.6 | 4.2 | | | | | | |
| *EIB* | 422.2 | 9.2 | 3.1 | | | | | | |
| *EBRD* | 158.5 | 3.4 | 1.2 | | | | | | |
| list of additional large creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| Bilateral Creditors[2] | 118.8 | 2.6 | 0.9 | 60.5 | 34.4 | 10.2 | 0.4 | 0.2 | 0.1 |
| Paris Club | 111.8 | 2.4 | 0.8 | 23.7 | 28.1 | 10.0 | 0.2 | 0.2 | 0.1 |
| *o/w: list largest two creditors* | 68.8 | 1.5 | 0.5 | | | | | | |
| *JICA* | 49.6 | 1.1 | 0.4 | | | | | | |
| *Government of Russia* | 19.2 | 0.4 | 0.1 | | | | | | |
| list of additional large creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| Non-Paris Club | 7.0 | 0.2 | 0.1 | 36.8 | 6.3 | 0.2 | 0.3 | 0.0 | 0.0 |
| o/w: list largest two creditors | 6.5 | 0.1 | 0.0 | | | | | | |
| Government of Romania | 5.7 | 0.1 | 0.0 | | | | | | |
| Novo Gaming M Technologies GMBH | 0.9 | 0.0 | 0.0 | | | | | | |
| list of additional large creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| Bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commercial creditors | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| o/w: list largest two creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| list of additional large creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| Other international creditors | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *o/w: list largest two creditors* | 0.0 | 0.0 | 0.0 | | | | | | |
| list of additional large creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| **Domestic** | 1960.4 | 42.5 | 14.3 | 1699.3 | 1499.4 | 1718.4 | 12.4 | 10.3 | 11.2 |
| Held by residents, total | 1960.3 | 42.5 | 14.3 | 1699.3 | 1499.4 | 1718.4 | 12.4 | 10.3 | 11.2 |
| Held by non-residents, total | 0.1 | 0.0 | 0.0 | | | | | | |
| T-Bills | 1021.2 | 22.1 | 7.5 | 1410.8 | 1373.1 | 1488.6 | 10.3 | 9.4 | 9.7 |
| Bonds | 854.7 | 18.5 | 6.2 | 212.8 | 95.1 | 204.3 | 1.6 | 0.7 | 1.3 |
| Loans* | 84.5 | 1.8 | 0.6 | 75.7 | 31.1 | 25.4 | 0.6 | 0.2 | 0.2 |
| **Memo Items:** | 103.4 | | | | | | | | |
| Collateralized debt[4] | 0.0 | 0.0 | 0.0 | | | | | | |
| o/w: Related | 0.0 | 0.0 | 0.0 | | | | | | |
| o/w: Unrelated | 0.0 | 0.0 | 0.0 | | | | | | |
| Contingent liabilities | 103.4 | | 0.8 | 0.0 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 |
| o/w: Public guarantees | 103.4 | | 0.8 | 0.0 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 |
| o/w: Other explicit contingent liabilities[5] | 0.0 | 0.0 | 0.0 | | | | | | |
| Nominal GDP | 13679.2 | | | 13679.2 | 14613.4 | 15402.3 | | | |

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

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

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

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

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

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

## Table 11. Moldova: Indicators of Fund Credit, 2020–2032 1/

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Est. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Fund Obligations Based on Existing Credit (millions of SDRs) | | | | | | | | | | | | | |
| Principal | 53.4 | 35.3 | 21.0 | 41.6 | 76.5 | 57.0 | 44.5 | 54.2 | 57.1 | 54.1 | 41.1 | 34.1 | 13.9 |
| Charges and interest | 2.3 | 2.2 | 4.6 | 18.4 | 16.2 | 13.7 | 12.7 | 11.8 | 10.8 | 9.9 | 9.2 | 8.6 | 8.1 |
| Fund Obligations Based on Existing and Prospective Credit (millions of SDRs) | | | | | | | | | | | | | |
| Principal | 53.4 | 35.3 | 21.0 | 41.6 | 76.5 | 57.0 | 44.5 | 59.5 | 85.9 | 114.0 | 110.8 | 105.7 | 85.4 |
| Charges and interest | 2.3 | 2.4 | 4.6 | 21.9 | 26.6 | 27.7 | 26.4 | 25.2 | 22.8 | 19.4 | 16.7 | 14.2 | 11.7 |
| Total Obligations Based on Existing and Prospective Credit | | | | | | | | | | | | | |
| Millions of SDRs | 55.6 | 37.7 | 25.7 | 63.5 | 103.1 | 84.7 | 70.9 | 84.7 | 108.7 | 133.5 | 127.5 | 119.9 | 97.1 |
| Millions of U.S. dollars | 76.8 | 52.2 | 35.7 | 88.6 | 144.3 | 119.0 | 99.6 | 119.0 | 152.7 | 187.5 | 179.1 | 168.4 | 136.5 |
| Percent of exports of goods and services | 2.4 | 1.2 | 0.8 | 1.8 | 2.7 | 2.0 | 1.6 | 1.7 | 2.1 | 2.4 | 2.1 | 1.9 | 1.4 |
| Percent of debt service 2/ | 32.3 | 26.2 | 14.9 | 36.4 | 47.3 | 46.3 | 41.9 | 46.7 | 48.6 | 49.1 | 47.3 | 46.1 | 41.9 |
| Percent of GDP | 0.7 | 0.4 | 0.2 | 0.6 | 1.0 | 0.7 | 0.6 | 0.6 | 0.8 | 0.9 | 0.8 | 0.7 | 0.5 |
| Percent of gross international reserves | 2.0 | 1.3 | 1.0 | 2.6 | 3.7 | 2.9 | 2.2 | 2.5 | 3.1 | 3.7 | 3.4 | 3.1 | 2.5 |
| Percent of quota | 32.2 | 21.8 | 14.9 | 36.8 | 59.8 | 49.1 | 41.1 | 49.1 | 63.0 | 77.4 | 73.9 | 69.5 | 56.3 |
| Outstanding Fund Credit Based on Existing and Prospective Credit | | | | | | | | | | | | | |
| Millions of SDRs | 346.7 | 368.5 | 474.1 | 595.1 | 719.7 | 707.3 | 662.8 | 603.4 | 517.5 | 403.4 | 292.7 | 187.0 | 101.6 |
| Millions of U.S. dollars | 478.8 | 511.4 | 660.1 | 830.7 | 1,007.5 | 993.7 | 931.2 | 847.7 | 727.0 | 566.8 | 411.2 | 262.8 | 142.8 |
| Percent of exports of goods and services | 14.9 | 12.2 | 14.6 | 16.9 | 18.7 | 16.9 | 14.5 | 12.3 | 9.8 | 7.2 | 4.9 | 2.9 | 1.5 |
| Percent of debt service 2/ | 201.1 | 256.8 | 276.0 | 340.8 | 330.0 | 387.0 | 391.9 | 332.7 | 231.2 | 148.4 | 108.5 | 72.0 | 43.8 |
| Percent of GDP | 4.2 | 3.7 | 4.6 | 5.8 | 6.7 | 6.1 | 5.3 | 4.5 | 3.6 | 2.6 | 1.8 | 1.1 | 0.5 |
| Percent of gross international reserves | 12.7 | 13.1 | 19.4 | 24.4 | 25.6 | 24.0 | 20.8 | 17.5 | 14.6 | 11.1 | 7.9 | 4.9 | 2.6 |
| Percent of quota | 201.0 | 213.6 | 274.9 | 345.0 | 417.2 | 410.0 | 384.2 | 349.8 | 300.0 | 233.9 | 169.7 | 108.4 | 58.9 |
| Net Use of Fund Credit (millions of SDRs) | 133.5 | 21.9 | 128.4 | 100.3 | 124.7 | -12.5 | -44.5 | -59.5 | -85.9 | -114.0 | -110.8 | -105.7 | -85.4 |
| Disbursements and purchases | 186.9 | 57.1 | 149.5 | 141.9 | 201.2 | 44.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayments and repurchases | 53.4 | 35.3 | 21.0 | 41.6 | 76.5 | 57.0 | 44.5 | 59.5 | 85.9 | 114.0 | 110.8 | 105.7 | 85.4 |
| Memorandum Items: | | | | | | | | | | | | | |
| Exports of goods and services (millions of U.S. dollars) | 3,222 | 4,197 | 4,519 | 4,919 | 5,374 | 5,873 | 6,422 | 6,896 | 7,382 | 7,901 | 8,458 | 9,053 | 9,690 |
| Debt service (millions of U.S. dollars) 2/ | 238.1 | 199.1 | 239.1 | 243.7 | 305.3 | 256.8 | 237.6 | 254.8 | 314.4 | 381.9 | 378.9 | 364.9 | 325.6 |
| Nominal GDP (millions of U.S. dollars) 2/ | 11,530 | 13,682 | 14,487 | 14,444 | 15,138 | 16,375 | 17,624 | 18,927 | 20,259 | 21,685 | 23,211 | 24,845 | 26,594 |
| Gross International Reserves (millions of U.S. dollars) | 3,784 | 3,902 | 3,403 | 3,408 | 3,928 | 4,143 | 4,476 | 4,853 | 4,976 | 5,099 | 5,222 | 5,346 | 5,470 |
| Average exchange rate: SDR per U.S. dollars | 0.72 | 0.72 | 0.72 | 0.72 | 0.71 | 0.71 | 0.71 | 0.71 | 0.71 | 0.71 | 0.71 | 0.71 | 0.71 |
| Quota (millions of SDRs) | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 |

Sources: IMF staff estimates and projections.

1/ Assume repurchases are made on obligations schedule.

2/ Total debt service includes IMF repurchases and repayments.

## Table 12. Moldova: Schedule of Reviews and Disbursements 1/

| Available on or after | Amount of Disbursement/Purchase (SDRs) | | | Percent of Quota | | | Conditions |
|---|---|---|---|---|---|---|---|
| | Total | ECF | EFF | Total | ECF | EFF | |
| 1. December 20, 2021 | 57,150,000 | 19,050,000 | 38,100,000 | 33.13% | 11.04% | 22.09% | Board approval of the Arrangement |
| 2. May 11, 2022 | 108,150,000 | 64,750,000 | 43,400,000 | 62.70% | 37.54% | 25.16% | Board completion of ad hoc review, augmentation of access, the inflation consultation clause; and based on observance of continuous performance criteria, and prior action |
| 3. July 14, 2022 | 20,650,000 | 9,525,000 | 11,125,000 | 11.97% | 5.52% | 6.45% | Observance of end-June 2022 performance criteria, continuous performance criteria, and completion of first review |
| 4. October 14, 2022 | 20,650,000 | 9,525,000 | 11,125,000 | 11.97% | 5.52% | 6.45% | Observance of end-September 2022 performance criteria, continuous performance criteria, and completion of second review |
| 5. January 24, 2023 | 70,950,000 | 19,050,000 | 51,900,000 | 41.13% | 11.04% | 30.09% | Observance of end-December 2022 performance criteria, continuous performance criteria, and completion of third review |
| 6. July 24, 2023 | 70,950,000 | 19,050,000 | 51,900,000 | 41.13% | 11.04% | 30.09% | Observance of end-June 2023 performance criteria, continuous performance criteria, and completion of fourth review |
| 7. January 24, 2024 | 100,600,000 | 19,050,000 | 81,550,000 | 58.32% | 11.04% | 47.28% | Observance of end-December 2023 performance criteria, continuous performance criteria, and completion of fifth review |
| 8. July 24, 2024 | 100,600,000 | 19,050,000 | 81,550,000 | 58.32% | 11.04% | 47.28% | Observance of end-June 2024 performance criteria, continuous performance criteria, and completion of sixth review |
| 9. January 24, 2025 | 44,562,500 | 19,037,500 | 25,525,000 | 25.83% | 11.04% | 14.80% | Observance of end-December 2024 performance criteria, continuous performance criteria, and completion of seventh review |
| Total | 594,262,500 | 198,087,500 | 396,175,000 | 344.50% | 114.83% | 229.67% | |

Source: IMF staff estimates.

1/ Moldova's quota is SDR 172,500,000.

# Annex I. Risk Assessment Matrix 1/

| Source of Risk | Relative Likelihood | Time Horizon | Impact if Realized | Policy Response |
|---|---|---|---|---|
| | | **Conjunctural Risks** | | |
| **Commodity price shocks**. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability. | High | **Short term** | High<br><br>**Volatile energy prices and/or interruptions in energy supply.** Sharper-than-anticipated increases in international energy prices raise the cost of energy imports. Disruptions in energy supply and/or supply shortages from the energy market keep energy prices elevated. Further spikes in energy prices would lead to a rise in the cost of energy imports. A disruption of gas supply deliveries to Moldova would force the country to replace the diminished volumes from the spot market at a much higher cost, while a broader supply shock could trigger significant challenges to identify alternative sources. Alternative electricity supplies in the region would also become capacity constrained and/or significantly more expensive. This may necessitate temporary rationing. | • Adjust local energy tariffs.<br>• Allocate additional budget resources to targeted measures that shield most vulnerable segments of the population through transparent processes.<br>• Implement measures to ration demand.<br>• Extend support to the energy regulator to ensure energy sector security.<br>• Closely monitor inflation. |

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

| Source of Risk | Relative Likelihood | Time Horizon | Impact if Realized | Policy Response |
|---|---|---|---|---|
| | | | **High**<br><br>**Deterioration in food security.** Higher food prices and/or supply disruptions would hurt vulnerable consumers (particularly low-income households) and could also weigh on domestic demand through a reduction of purchasing power via inflation. It could also aggravate domestic social tensions. | • Seek alternative foreign suppliers.<br>• Allocate funds to increase domestic grains reserve.<br>• Target fiscal support to segments of the population hit hardest by rising food prices.<br>• Increase investments in agricultural productivity and agricultural infrastructure. |
| **Systemic social unrest.** Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows from EMDEs, slowing economic growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies). | **High** | **Short to Medium Term** | **Medium**<br>• Economic activity and supply disruptions are likely, as elevated social tensions and heightened insecurity ensue from more severe and prolonged job losses and hampered business activity.<br>• Loss of confidence in the government's ability to facilitate a strong recovery may fuel political instability and aggravate economic uncertainty.<br>• Risk of policy reversals by the government to appease rising protest demands, and/or mitigate heightened instability. | • Strengthen budget outlays, especially those geared towards social spending in support of distraught households, and in support of businesses and economic recovery.<br>• Communicate the government's policy deliverables clearly to the general population and to economic agents, to ascertain the credibility of its intentions and provide certainty, clarity, and assurances to market participants on the path of adjustment and recovery.<br>• Enhance rule of law and strengthen anti-corruption measures, including those aimed at increasing transparency and accountability in public spending.<br>• Avoid policy reversals.<br>• Enhance rule of law and strengthen anti-corruption measures, including those aimed at increasing transparency and accountability in public spending.<br>• Avoid policy reversals. |

| Source of Risk | Relative Likelihood | Time Horizon | Impact if Realized | Policy Response |
|---|---|---|---|---|
| **De-anchoring of inflation expectations and stagflation.** Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged. leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation. | Medium | **Short to Medium Term** | High<br><br>**Increased inflation pressures domestically**, due to higher commodity prices and worsening supply-demand imbalances, may pose difficult policy trade-offs. | • Closely monitor inflation.<br>• Further tighten monetary policy to address second-round effects.<br>• Implement support measures for the most vulnerable. |
| **Abrupt global slowdown or recession.** Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. In **Europe**, the fallout from the war in Ukraine is exacerbated by a gas shutoff by Russia, resulting in acute gas shortages and further supply disruptions, which triggers an EU recession. | High | **Short to Medium Term** | High<br><br>• An economic slowdown in Europe and key trading partners will weigh on Moldova, leading to a growth slowdown, further inflationary pressure, and weaker fiscal position.<br>• Limited external financing. Further tightening of financing constraints could result in lower rollover rates. | • Secure alternative energy sources.<br>• Implement measures to ration demand.<br>• Advance structural reforms to improve competitiveness.<br>• Monitor fiscal and financial sector risks closely.<br>• Limit expenditures to the extent that available fiscal cash buffers and external financing allow. |

| Source of Risk | Relative Likelihood | Time Horizon | Impact if Realized | Policy Response |
|---|---|---|---|---|
| In **EMDEs,** sharp tightening of global financial conditions combined with volatile commodity prices leads to spiking risk premia widening of external imbalances and fiscal pressures, capital outflows, sudden stops, and debt and financial crises across EMDEs. | | | | • Ensure that the high-priority social spending is protected. |
| **Local Covid-19 outbreaks.** Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs. | **Medium** | **Short to Medium Term** | **High**<br>• Higher fiscal costs to (i) contain virus fallout and strengthen the health care system; (ii) support businesses facing distress (e.g., losses, curtailed activity); and (iii) protect affected households via social transfers (layoffs/ unemployment benefits).<br>• The government may decide to adopt export restrictions/controls.<br>• Mounting financing pressures due to potential loss of donor support.<br>• Increased inflation pressures domestically, due to higher commodity prices and worsening supply-demand imbalances, may pose difficult policy trade-offs. | • Continue growth-friendly fiscal policy, strengthen efficiency of public spending, and reprioritize outlays.<br>• Address structural bottlenecks through continued reforms to improve competitiveness and reduce trade costs.<br>• Continue sound monitoring/ supervision of the financial system to promptly address any signs of market distress.<br>• Refrain from resorting to any protectionist measures.<br>• Maintain a flexible exchange rate regime.<br>• Closely monitor inflation.<br>• Further tighten monetary policy to address second-round effects. |

| Source of Risk | Relative Likelihood | Time Horizon | Impact if Realized | Policy Response |
|---|---|---|---|---|
| **Feedback loops from corporate balance sheets and spillovers from non-banks to banks,** resulting from shocks to the energy and agricultural sectors as well as exposures to Russia, Ukraine, and Belarus. | Medium | **Short term** | **High**<br>• A significant worsening of debtor balance sheets, concentrated in the energy and agricultural sectors. would lead to rising NPLs.<br>• Spillovers from the non-bank sector could further exacerbate stress in financial institutions. | • Follow standard procedures in place, including collateral enforcement and capital and provisioning buffers to absorb losses.<br>• Strengthen monitoring of non-banks and stand ready to take necessary preventive regulatory measures should risks increase.<br>• Implement policies to resolve insolvent non-bank entities. |
| | | **Structural Risks** | | |
| **Deepening geo-economic fragmentation and geopolitical tensions.** Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth. | High | **Short to Medium Term** | **High**<br>• Tensions in major regional trade partners and donors could disrupt Moldova's growth trajectory through trade, remittances, and financial flows, aggravate domestic and external financing constraints, and undermine energy security.<br>• Associated changes in global trade, remittances, and capital flow patterns could affect Moldova's economy and the balance of payments. | • Diversify the economy and improve competitiveness via structural reforms.<br>• Improve effectiveness of donor-financed projects.<br>• Invest in new infrastructure, technology, and labor skills.<br>• Rebuild fiscal and financial buffers.<br>• Maintain flexible exchange rate regime |

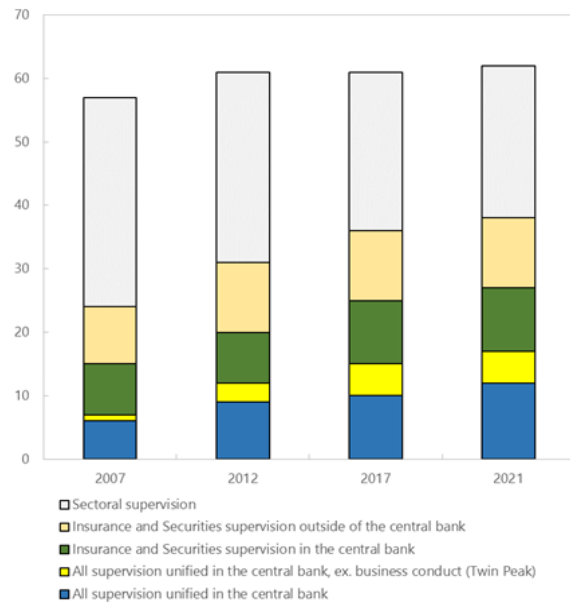
| | | | | |
|---|---|---|---|---|
| **Cyberthreats.** Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability and disrupt economic activities. | Medium | **Short to Medium Term** | High<br>• Potential paralysis to financial services provided by bank and non-bank financial institutions can depress economic activity and induce hefty costs and financial losses, fuel sudden stops in government, household, and cross border operations, and raise fears of financial contagion and of identity theft. | • Review and strengthen national cyber security risk management and mitigation policies, such as safety of personal, banking and sensitive official information sources, records, and data systems.<br>• Invest in continuous, automatic backups on secured servers. |
| **Governance weaknesses and corruption vulnerabilities could contribute to domestic populism and reform fatigue**, which could jeopardize reform momentum and undermine donor funding. | High | **Short to Medium Term** | High<br>• Lower potential growth on account of continued emigration, crumbling infrastructure, and low productivity. | • Continue policy reforms and safeguard progress to date.<br>• Resist populist demands.<br>• Protect social spending on poor, improve targeting.<br>• Continue growth-friendly fiscal policy.<br>• Maintain flexible exchange rate regime.<br>• Implement active labor market policies to encourage labor market participation.<br>• Strengthen anticorruption efforts and rule of law to instill public confidence in government and public bodies. |

| | | | | |
|---|---|---|---|---|
| **Natural disasters related to climate change.** More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth. | **Medium** | **Short to Medium Term** | **High**<br>• Adverse weather conditions would directly affect economic and labor conditions in the large agricultural sector, put pressures on domestic food prices, and reduce export flows.<br>• Lower potential growth. | • Diversify the economy and improve competitiveness via structural reforms.<br>• Use monetary policy to address second round effects of commodity prices shocks. |

# Annex II. Considerations for the Twin Peak in Moldova

1. **Supervisory structures differ across countries, but recent changes show a trend towards more unified supervision and the Twin Peak.**[1] Important changes in the institutional supervisory set-up across countries have happened over the past 15 years. Many reforms started in reaction to crises, including the GFC. The model in which the central bank is a unified prudential regulator and supervisor for banks, non-banks, insurance, and pension funds has become more prominent among countries where central bank oversees prudential supervision of banks (see chart). The number of countries with unified supervision (typically in a central bank) but with consumer protection, including related regulation and supervision, outside of the central bank (so called the Twin Peak) has also been growing (see chart).

**Countries with Banking Prudential Supervision in the Central Bank**




Sources: Podpiera, A.M. (Oct 2022): "Entrusting central banks with microprudential supervision:implications for financial stability", In: Holzmann R., F. Restoy, *Central banks and supervisory architecture in Europe: Lessons from Crisis in 21st Century*, pp. 122-134. Melecky, M., Podpiera, A.M. (2013): "Institutional structures of financial sector supervision, their drivers and historical benchmarks", *Journal of Financial Stability* 9 (2013), pp. 428– 444 .

2. **However, a peer comparison does not offer a clear guide for the Twin Peak choice in Moldova.** Countries with the Twin Peak with central bank being a unified financial sector supervisor are Belgium (from 2011), Australia (1999), The Netherlands (2003), the Slovak Republic (2008), Finland (2009), and South Africa (2017). The Twin Peak (but with supervision unified outside of the central bank) was introduced in Peru (2020), as recommended by the IMF. Nevertheless, some similar (both, with and without independent monetary policy) regional peers opted for full unification of supervision of the financial sector (including consumer protection) in their central banks. These are: the Czech Republic (2006), Ireland (2010), Georgia (2013), Iceland (2020), Ukraine (2020), and Latvia (2022–23).

3. **Therefore, the choice of the supervisory structure in Moldova will depend on specifics of Moldova's financial system.** The current mandate for financial consumer protection is spread across three agencies: the National Bank of Moldova (NBM) for banks, payment services, and currency exchanges; the National Commission for Financial Markets (NCFM) for non-banks and investors; and the State Inspectorate for the Supervision of Non-Food Products and Consumer Protection for compliance with the legislation on credit contracts. This setup does not benefit consumers, who often file complaints with an incorrect agency. The decision to entrust the NBM

[1] Twin Peak financial supervisory structure is a setup where prudential regulation and supervision for banks, and often also non-banks, insurance, and pension funds is unified in one institution, typically a central bank, and the consumer protection mandate is performed by a specialized agency outside of the central bank.

with supervision and regulation for non-bank credit organizations (NBCO) and insurers (from July 1, 2023) transfers also the associated part of the financial consumer protection mandate from the NCFM to the NBM. The transfer is beneficial for the systemic and macroprudential oversight, since:

- *Individual NCBOs are very large.* For instance, Microinvest, S.R.L. is the fourth largest financial institution by assets in Moldova.

- *NCBOs' lending is macro significant.* It accounts for close to 17 percent of total bank and NCBO lending and is often directed to borrowers that face difficulties obtaining credit from banks. Supervising banks and NCBOs by the NBM would assure timely access to supervisory data for all lenders, an assessment of the credit gap for all lending, and setting appropriate macroprudential policy for banks and NCBOs.

- *Links between banks and NCBOs are nonnegligible.* Banks provide a part of the funding for non-banks and therefore supervising both banks and NCBOs by the NBM is likely to improve the assessment of systemic risks. Supervision of NCBOs by the NBM is also beneficial to better consider risks from joint exposures of banks and NCBOs to common clients. The robustness of NCBOs during a severe stress period has not been tested yet.

- *The insurance sector is set for a difficult transition to Solvency II.* The NBM can leverage experiences in financial sector's supervision and regulation to complete the legal framework for Solvency II and guide insurers towards its full implementation.

**4. However, should the NBM indeed become a fully unified supervisor, or would the Twin Peak structure be more appropriate?** The Twin Peak structure may be beneficial, especially to avoid:

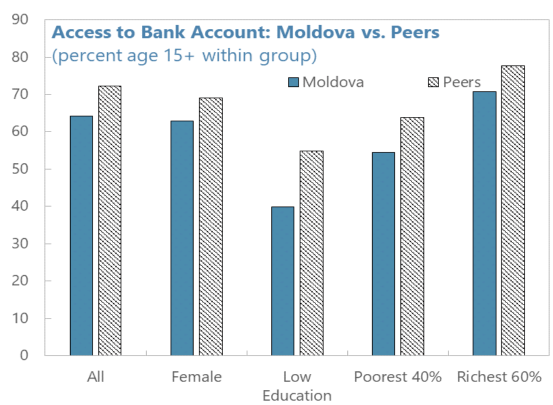
- *Potential threat to NBM's credibility and independence.* Consumer protection often involves litigation risks and frequent court appearances of the NBM may produce negative publicity for the NBM and undermine its other core mandates (monetary policy, financial stability, and prudential supervision).
- *Potential threat to NBM's accountability due to multiple mandates.* There may be times, especially during crises, when prudential supervision dominates and as a result, some problematic commercial practices are overlooked to protect commercial banks' capital and profitability. On the other hand, consumer protection mandate may get so busy at times that prudential considerations are not adequately addressed, as in the run-up to 2007 at the U.K.'s FSA in supervising British banks or at the US's SEC in supervising larger broker-dealers.
- *Challenges in assuring internal structures that limit potential conflicts of interest with respect to additional supervisory functions.* Most common mechanisms include assigning conflicting responsibilities to different departments or board members, but small central banks, such as the NBM, may have limited options to properly separate supervisory functions.

**5. The potential Twin Peak would require careful division of supervisory responsibilities between the NBM and NCFM.** Ideally, the NCFM would regulate and supervise consumer protection-related matters for all financial services, in addition to its financial market supervision mandate. However, compliance of banks, non-banks, and insurers with laws and regulations that are not directly linked to interaction of financial services providers with consumers would continue to be assessed by the NBM. The sanction regime for the NCFM would also need to be clarified and enacted.

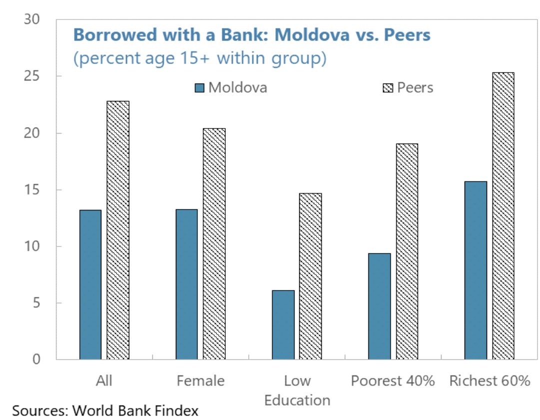
**6. Regardless of the chosen model, a review after five years could be appropriate.** As in Ireland, where an international peer review of the functioning of the supervisory structures is mandated by law after five years, a similar review could be conducted for the new structure introduced in Moldova.

# Annex III. Financial Inclusion in Moldova

1. **Financial inclusion is still lagging in Moldova, compared to regional peers.** About 64 percent of adults have an account with financial institutions, below the average of 72 percent in comparable countries in Europe and Central Asia (ECA). Inequalities in access are however significant with account penetration much lower amongst the poorest and those with low education. Inactivity also remains high with only 13 percent of adults borrowing from a bank and only about 8 percent adults saving. This has resulted in a high share of informal savings (about 55 percent adults saving with other means) and borrowing with non-bank institutions proliferating and accounting for an increasing share of overall credit in the economy. While the supply of bank branches in Moldova remains comparable to peers, the main reasons for not having a bank account remains the high cost of financial services and the lack of required documentation.



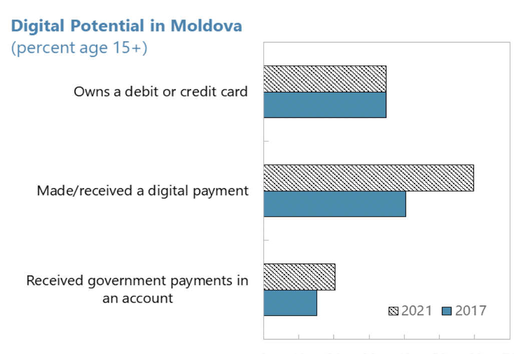
Sources: World Bank Findex



Sources: World Bank Findex

2. **The landscape for boosting financial inclusion through digitalization has significantly improved.** While the proportion of adults possessing a debit or credit card has not changed (at about 34 percent), digital payment use has accelerated. The percentage of adults making or receiving digital payments increased from 40 to 60 percent between 2017 and 2021, partly as a result of the pandemic and the need for efficient contactless payments. The government and the NBM have been leading initiatives to redirect central government payments to electronic channels, through the creation of an online payment service MPay. The service is enabled through credit cards, payment terminals, e-banking, and even physical access points for persons without internet connection.

3. **Fintech companies and mobile service operators are still scarce but there is some growing activity in the sector.** Mobile network operators have not entered the market with the main reported reason being the lack of interest and an understanding of the business case (see Moldova FSSR, 2021). Some banks have taken initiatives through alliances to develop



Sources: World Bank Findex

fintech innovations. The NBM is actively modernizing the financial market infrastructure to facilitate cashless payments through the development of the instant payment scheme and, in time, the PSD2-based open banking system (European Directive 2015/2366). They are also preparing to launch an online identity verification system (e-KYC procedure) which will simplify customer due diligence requirements and help unserved and underserved groups access and use regulated financial services. This will also increase the reach and effectiveness of AML/CFT regimes.

# Appendix I. Letter of Intent

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

Chişinău, Moldova
December 15, 2022

Dear Ms. Georgieva:

1. The attached provide updates to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) of September 7, 2022. The MEFP reports on recent economic developments, reviews progress in implementing Moldova's program under the ECF-EFF arrangements and sets out macroeconomic and structural policies that we plan to implement.

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

3. Our policies have remained broadly on track despite a challenging landscape. We met all end-September 2022 quantitative and indicative targets. We met the structural benchmark to amend legislation and regulations to expand the coverage of the existing public investment management framework ahead of schedule. However, we missed the structural benchmark on adopting the state-ownership strategy for all state-owned enterprises (SOEs) which is expected to be completed in December. We also amended relevant legislation to strengthen the institutional autonomy of the National Bank of Moldova as a prior action. We are proposing six new benchmarks (outlined in the MEFP) reflecting our continued commitment to the program's overarching objectives. We also propose to modify the TMU definition of the continuous ceiling on accumulation of external payments arrears for external payment obligations for which the creditor has extended a payment deferral or payments are made into an escrow account due to the risks of blocking of the repayment by corresponding banks. While end-December performance criteria (PC) appear on track to be met, final data are not yet available to assess the performance. We therefore request a waiver of applicability for all end-December PCs for this second review under the EFF.

4. Given the positive performance under the program and the policies in the enclosed MEFP, we request the completion of this review and the release of the combined purchase/disbursement of SDR20.65 million, which will bring total drawings under the arrangement to SDR206.6 million. We

believe that the solid policies and measures outlined in this MEFP are appropriate to achieve the program objectives for sustaining the economic recovery and pursue structural and development reforms for strong and inclusive growth. We stand ready to take additional measures, as appropriate, to achieve these objectives. We will consult with IMF staff before adopting such measures, or in advance of revisions to the policies contained in this MEFP, or before adopting new measures that would deviate from program goals, consistent with IMF policies on such consultations. In line with our commitment to transparency, we authorize the IMF to publish this letter, the MEFP and its attachments, and the accompanying staff report.

Sincerely yours,

/s/

Natalia Gavrilița
Prime Minister

/s/

Octavian Armașu
Governor National Bank of Moldova

/s/

Dumitru Budianschi
Minister of Finance

/s/

Dumitru Alaiba
Minister of Economy

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

# Attachment I. Memorandum of Economic and Financial Policies

## I. Macroeconomic Developments and Outlook

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

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

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

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

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

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

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

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

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

# II. Policy Framework

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

## A. Fiscal Policy

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

**7. Our medium-term fiscal policy will continue to be guided by the overarching objective of pursuing developmental goals while preserving fiscal sustainability.** We will focus on revenue mobilization efforts aimed at greater efficiency in tax administration while reducing tax expenditures. The nominal depreciation and response to shocks will increase public debt towards 45 percent of GDP, the level anchoring the program. We are committed to a declining path over the medium term once the current crises dissipate to retain sufficient buffers against contingent liability risks and shocks. Our medium-term budget framework will target general government deficits of about 4.6 to 3.4 percent of GDP in 2024–26. Underpinning this will be reforms to mobilize domestic revenues, improve tax administration, and development-focused spending—prioritizing capital spending on roads, energy diversification, and water, investments in health and education, as well as supporting SME growth and job creation—supported by enhanced spending efficiency, domestic market development, and strengthen fiscal governance and transparency.

**Reforms to Strengthen Revenue Mobilization**

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

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

- **Continue strengthening tax administration.** We undertook an assessment of the system of tax administration using the Tax Administration Diagnostic Assessment Tool (TADAT). Although State Tax Service (STS) has made good progress in enhancing services to taxpayers, there is scope to enhance compliance risk management, improve the taxpayer register, and upgrade the IT system. We will continue to improve the organizational structure and capacity of the STS in line with IMF TA, including TADAT recommendations by (i) strengthening STS capacity to investigate and refer tax crimes for prosecution by signing relevant protocols, addressing gaps in legislation, and organizing training and technical assistance from the IMF and other development partners; (ii) launching the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes by September 1, 2023; (iii) introducing a General Anti-Avoidance Rule provision in the Tax Code to counter domestic and international abusive tax practices (**new end-September 2023 SB**); and (iv) implementing an automated tax filling compliance program to improve on-time filing of tax returns, including by assigning penalties for late- or non-filing (**new end-December 2023 SB**).

- **Continue phasing out the favorable treatment of carbon emissions.** Road fuel excises are adjusted annually by nominal GDP growth with a view to converge towards minimum EU levels by 2025. After the energy crisis subsides, we will review the energy sector taxation regime, following a thorough assessment of social and economic considerations.

- **Advance customs reforms in a number of important areas.** The Parliament approved a new customs code in August 2021, developed in consultations with the EU, that aims to align our customs regulations and procedures with international best practices and bring it closer to EU directives effective January 1, 2023. To support the implementation of the new customs code, we are developing relevant regulations. In line with our commitments with the EU and to strengthen deterrence capacity of anti-smuggling policies, we amended the relevant legislation (i) to reduce the legal threshold for determining smuggling as a criminal offence and raised administrative fines for such violations, and (ii) to define the smuggling offense base to include duties, taxes, and other fees. The WHO Protocol to Eliminate Illicit Trade in Tobacco Products, which aims to reduce revenue leakages and smuggling, was ratified in Parliament in March 2022. Going forward, we will update the relevant legislation to facilitate implementation of the Protocol.

- **We will leverage the AML/CFT regime to strengthen tax compliance.** Existing AML/CFT tools, such as for identifying the beneficial owners of entities and accounts, can be used to enhance corporate transparency, to facilitate detection and enforcement of tax offences and incidences of abusive profit shifting (including to non-transparent offshore jurisdictions), and to trigger tax controls. In this regard, we aim to improve the exchange of information between authorities and the quality of beneficial ownership information and strengthen the cooperation between the tax authority, financial intelligence unit, and law enforcement bodies.

**Reforms to Improve Budget Quality and Fiscal Transparency**

**9. We firmly believe in the importance of transparent budgeting.** To that effect, we will prioritize the following actions:

- **Institutionalize spending reviews.** We see spending reviews as critical for identifying the scope for efficiency improvements and cost effectiveness in key sectors. We completed a spending review for the education and agriculture sectors and plan to complete a spending review in the health sector in 2023. With a view to implement relevant recommendations from the completed spending reviews, we plan to consolidate the network of universities by absorbing smaller higher education institutions and merging research institutes with universities, while directing efficiency gains towards improving the educational process. We will work closely with our UN partners to conduct additional social sector spending reviews where needed, as well as monitoring the implementation of recommendations of spending reviews related to improved quality of education, and effectiveness and equity of public spending for children and other vulnerable groups.

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

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

- **Strengthen public procurement**. We now publish the beneficial ownership information of all entities contracting with public authorities on the website of the Public Procurement Agency. We intend to strengthen our e-procurement system to cover all public procurements in 2023, with a view to support transparent public procurement processes and delivering cost-efficient services. The government also intends to approve a roadmap for the next four years by approving the Public Procurement Development Program, with a view to further harmonize the national regulatory framework with the Acquis Communautaire, finalize the secondary regulatory framework, develop the capacity of public procurement specialists, and promote centralized public procurement.

- **Enhance disclosure and management of fiscal risks.** We have made progress in identifying and reporting fiscal risks and published a fiscal risk statement as an addendum to our budget documents starting 2018. In 2020, we expanded it to include key PPPs, large SOEs, and government guarantees under the Prima Casa housing support program. We will continue to improve the coverage, monitoring, inter-agency coordination, and reporting quality of contingent liabilities in our fiscal risk statements going forward (see SOE reforms).

- **Strengthen debt and cash management.** Despite recent progress, especially with respect to data quality and inter-agency coordination, financial instruments are limited and concentrated in short-term maturities, and the government securities market remains shallow. In September 2022, we amended the law on public debt (Law 419/2006) to: (i) improve the quality of the statistical data of the public sector debt (based on IMF mission recommendations), (ii) regulate the direct issuance of government securities to retail investors and their transactions on the primary and secondary markets, (iii) regulate the monitoring of the primary dealer's activity, and (iv) regulate the authorization process of contracting debt and issuing guarantees. We will amend the relevant secondary legislation to facilitate the implementation of the law. To deepen the debt market for government securities and facilitate domestic financing, we will strengthen our operational capacity, and take steps to further develop the primary dealer system and develop a new platform for retail investors. Towards this objective, we will approve and implement an action plan on the development of the government securities market.

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

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

- **Strengthen our public investment management (PIM) framework to enhance the execution and quality of public investment and close large infrastructure gaps.** Our PIM framework is broadly in line with good international practices, but inconsistent application and narrow coverage significantly limit its effectiveness. Guided by the 2019 PIMA report recommendations, we aim to strengthen the planning, allocation, and implementation stages of our PIM cycle. To this end: (i) in March, we published on the Ministry of Finance webpage five reports on the execution of investment projects undertaken by the developmental funds (Regional Development Fund, Road Fund, Environment Fund, Energy Efficiency Fund, and foreign-financed projects) in the previous fiscal year, with a requirement to update these reports annually as part of the budgetary preparation and reporting; and (ii) we amended legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and development funds (**end-September 2022 structural benchmark)**. To facilitate the implementation, enhance transparency, and further strengthen the public investment management framework, we will: (i) mandate compliance with the Regulation 684 for all new eligible public investment projects considered for funding under the MTBF and State budget effective from 2024; and (ii) develop a registry for investment projects approved for the implementation by the State budget, externally-funded projects, and developmental funds, and make all supporting documentation public.

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

- **Ensure the sustainability of the pension system.** Our pension system has significant challenges, including a narrow contribution base, an ageing population, and falling replacement ratios. In April 2023, we plan to raise pensions by 14.5 percent in line with projected social security contributions growth. In consultation with the World Bank, we intend to continue broadening the contribution base to address sustainability risks. We intend to make the pension system more equitable by introducing changes to the Silver Fund program, which will increase benefits to a small group of older pensioners, taking into account age and seniority at work.

- **Enhance social assistance programs.** In consultation with the World Bank, we initiated the reform of the Ajutorul Social program which strives to improve the targeting of social assistance programs, by shifting resources from categorical (including ad-hoc categorical payments) to means-tested payments, and by increasing the coefficients given to the most vulnerable members of recipient families, and by making remote application to means-tested programs operational. The reform also includes a simplification of the proxy test, clarifying qualification criteria for Ajutorul Social and APRA (cold-season benefit) and improving the interoperability of information systems. In close cooperation with our UN partners, we will continue monitoring the impact of the war on living standards and adjust the level accordingly to ensure coverage of the most vulnerable, especially families with children. We updated our Poverty Reduction Strategy Paper (PRSP), "European Moldova - 2030", and adopted it in Parliament in November 2022.

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

- **Scale up investment in disaster and climate risk mitigation and response.** Moldova's systemically important agricultural sector continues to be vulnerable to natural disasters, with imminent risks to the livelihoods of numerous producers and households. In cooperation with the World Bank, we will explore measures to strengthen the sector's resilience, including by building farmers' capacity for sustainable agricultural practices and climate adaptation measures, expanding access to irrigation, adopting drought-resistant crop varieties and anti-hail protection, and developing innovative insurance schemes.

- **Strengthen gender equality efforts**. Gender inequalities continue to persist in Moldova with the gender pay gap higher at 14.4 percent compared to 14.1 percent for the EU in 2019. Labor force participation remains low for women at 35 percent compared to 43.1 percent for men while wages for women average 13.7 percent lower than for men due to education, age, and working-time differences. According to the Public Expenditure and Financial Accountability (PEFA) results, Moldova lacks a comprehensive Gender Responsive Budgeting (GRB) framework as line ministries do not systematically track information on gender-related spending. While some gender sensitive indicators are produced and a requirement for gender sensitive information has been issued for the medium-term budget framework, the overall system lacks a tracking mechanism. We will work with the U.N. agencies to build capacity for incorporating gender equality into the broader PFM reform agenda by providing guidelines to line ministries for tracking and reporting gender sensitive information.

## B. Monetary Policy

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

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

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

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

## C. Financial Sector Policies

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

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

**14. We remain committed to further strengthening the institutional autonomy and governance of the NBM, in consultation with the IMF.** Against a highly uncertain background and soaring inflation, the central bank's independence remains critical for ensuring effectiveness in preserving macroeconomic and financial stability. In this regard, we are strongly committed to fully implement safeguards recommendations. In particular, in consultation with IMF staff, we will adopt amendments of relevant legislation to strengthen provisions for (**prior action** for the IMF Executive Board approval of the second review under the program): (i) procedures and criteria for the appointment, resignation, and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) clarifying managerial responsibilities for the governor and the executive board.

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

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

**17. We are determined to strengthen our financial supervision, including by bolstering our financial crisis management and macroprudential frameworks in line with the FSSR recommendations.** To this end, the NBM has made progress towards preparing the targeted review of the BRRL and the relevant secondary legislation, in line with good practices as appropriate to Moldova and based on IMF staff recommendations, to identify shortcomings, introduce more flexibility to the MREL requirement, the conditions of access to the resolution fund, and the participation of the DGF in the financing of the resolution measures (**end-June 2023 structural benchmark**). We have also advanced in the comprehensive review of the bank liquidation framework with a view to strengthen liquidation procedures, including introducing a forced liquidation procedure that achieves public policy objectives without hindering the discharge of other functions of the NBM. We are committed to close gaps in the macroprudential framework, including by amending the NBM Law to provide an explicit legal mandate for financial stability. The NBM also intends to update the macro-solvency stress testing framework. By March 2023, we will also amend relevant legislation to ensure that the NBM can conduct its supervisory work without being curtailed by inappropriate deadlines or other impediments to proper financial sector supervision which were introduced by the 2019 Administrative Code.

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

**19. We are improving oversight of the non-bank sector's viability, corporate governance, and risk management practices.** Our immediate focus remains in line with the prior commitment to transfer the regulatory and supervisory responsibilities for the oversight of Non-Bank Credit Organizations (NBCO), savings and lending associations, credit history bureaus, insurance companies, and insurance intermediaries to the NBM effective July 1, 2023. We are enhancing intra-authority coordination to intensify preparations, including via a comprehensive action plan prescribing steps to clarify the legal framework, advance capacity building, foster business continuity, implement necessary regulatory changes, and manage communication.

- ***Nonbank credit organizations.*** The activation of loan-to-value (LTV) and debt-service-to-income (DSTI) ratios as well as stricter credit worthiness assessment for the NBCO on September 1, 2022, has contributed to a slowdown (y/y) in non-bank credit by 25 and 33 percent in September and October 2022, respectively. We are upgrading the reporting requirements of

NBCOs to closely monitor their compliance with the responsible lending regulation and aim to have it ready by July 2023.

- ***Insurance Companies.*** We have modified solvency and liquidity indicators reporting to update the valuation of corporate shares and depreciation of real estate while properly accounting for liabilities under legal disputes. In April 2022, we adopted a new law on insurance and reinsurance activity to transpose Pillar II (corporate governance) and Pillar III (reporting standards) of the Solvency II framework. To facilitate implementation of Pillars II and III of the Solvency II framework, the NCFM will develop all critical secondary legislation. By end-June 2023, the NCFM will adopt secondary legislation on licensing, qualified shareholders, and fit-and-proper and prudential requirements (**new end-June 2023 structural benchmark**). Going forward, the NBM plans to conduct a Balance Sheet Review for all insurers to evaluate their readiness for the subsequent implementation of Pillar I. In line with the approved financial recovery plan, one insurer has successfully recapitalized while a special administration for another insurer continues to foster regulatory compliance. We are committed to implement resolution mechanisms for insurers that do not meet prudential requirements to safeguard assets, in accordance with new legislation. Also, in April 2022, we adopted a new law on Motor Third Party Liability Insurance, which becomes effective on April 1, 2023.

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

**21. We are taking steps towards improving financial inclusion.** To this end, the NBM is actively modernizing the financial market infrastructure to facilitate cashless payments through the development of the instant payment scheme and, in time, the PSD2-based open banking system. As recommended by the FSSR, we are updating the regulatory framework for online identity verification (e-KYC procedure) by 2023Q4 which will improve customer services and help unserved and underserved groups access and use regulated financial services. This will also increase the reach and effectiveness of AML/CFT regimes. The NBM's newly created Fintech division proactively engages with the private sector in order to develop new products based on the instant payments infrastructure that leverage digital services and provide modern, fast, efficient and inclusive financial services for consumers and SMEs. We are committed to developing an inter-agency committee with a mandate to develop, implement, and monitor an NFIS.

**22. We are committed to protecting our financial sector from illicit financial flows.** Towards this end, we will continue to strengthen our Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime, particularly by addressing vulnerabilities identified in the 2019 MONEYVAL assessment. To enhance the ability of financial institutions to play their role of gatekeepers, we have been conducting outreach to the sector on better understanding risks, the implementation of a risk-based approach, and more effective application of preventive measures focusing on suspicious transactions reporting, politically exposed persons, and the identification of beneficial owners. We commit to continuing these efforts, including through targeted supervisory activities. We will also strengthen the capacity of regulatory authorities and improve the coordination among all relevant actors, including regulatory authorities, law enforcement, and private sector. We have adopted a National AML/CFT Strategy for 2020–25 and will update our National Risk Assessment, develop the accompanying action plan, and publish the results.

## D. State Owned Enterprises and Energy Sector Reforms

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

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

- Albeit with a delay, we adopted in December 2022 a state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization, or liquidation, as well as plans to strengthen their governance (**end-September 2022 structural benchmark**). The rationales of the strategy, include: (i) supporting national economic interests; (ii) maintaining critical infrastructure; (iii) producing strategic goods and services; and (iv) providing basic social services. Going forward, we will complete a triage of SOEs owned by the central government, in line with the approved state-ownership strategy (**new end-December 2023 structural benchmark**). We also intend to propose a privatization strategy for small and large privatizations and set economic benchmarks to identify the most opportune conditions for launching de-nationalization efforts.

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

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

- ***Natural gas.***

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

  - We secured a EUR 300 million EBRD credit line for gas storage and emergency purchases which, together with budgetary resources, is being used to build sufficient storage for approximately three months of winter consumption, assuming measures to lower gas consumption are effective. We have also updated our broader contingency plan and policy options to be prepared for a scenario in which energy prices continue to soar and/or there are significant disruptions in supply. Natural gas supplies from Azerbaijan and Romania remain viable alternatives. As a member of the EU's energy platform, we will leverage regional cooperation to advance efforts to reduce dependence on gas imports and address infrastructure bottlenecks and inefficiencies. Specifically, in line with the South-East European regional action plan of the EU energy platform, we will ensure that customs regulations enable Moldova to operationalize virtual reverse pipeline flows. We have adjusted the regulatory framework to ensure closer and faster alignment of domestic tariffs with imported prices. Going forward, in agreement with the Energy Community Secretariat, ANRE will issue the final certification for the unbundled gas Transmission System Operator (TSO), by August 2023.

- ***Electricity.***

  - The war continues to create supply and price uncertainties. On October 11, exports of electricity from Ukraine were halted following Russia's targeted attacks on energy infrastructure. On October 24, MGRES reduced substantially the supply of electricity, creating a need for procurement from spot markets abroad. To bridge the shortfall, we secured supplies from Romania through the ENTSO-E, but capacity remains constrained with quantities volatile and prices broadly higher. Resorting to EU traders or spot market acquisitions to cover for the deficit would likely come at a higher cost while cross-border capacity remains limited at 500 MW (by ENTSO-E) for both banks of the Dniester River, resulting in a capacity shortfall. We are urging economic agents and households to save energy during peak hours to help balance the demands of the grid.

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

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

## E. Rule of Law and Anti-Corruption

26. **Strengthening the rule of law and addressing corruption remain critical priorities.** We are committed to combatting high-level corruption, eliminating bad actors in the public sphere, and laying the foundation for strong rule of law in Moldova. Our short-term goals include cleansing the system and developing a rigorous framework to preserve the independence and accountability of judicial actors, which is critical to addressing corruption, reducing avenues for political influence, instilling more trust in our court system, and improving access to and delivery of justice. We also recognize the importance of capacity building and ensuring the effective functioning of key institutions. To achieve the foregoing objectives, we are currently reviewing our national anti-corruption strategy, which expires at the end of 2022, to inform the preparation of a new strategy.

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

28. **We are committed to enhancing the capacity and integrity of our prosecution service.** To improve the effectiveness and accountability of the prosecution service, we passed amendments relating to the extraordinary assessment of the Prosecutor General. To ensure that such evaluations are conducted in accordance with principles enshrined in our constitution, we have developed specific criteria and procedures with the necessary safeguards in place and in consultation with

international partners. Reforms are needed to improve the current system of evaluating and disciplining prosecutors, including by streamlining disciplinary proceedings and removing the inspectorate of prosecutors from under the office of the Prosecutor General. Our ultimate objective is to strengthen the independence, accountability, and capacity of the Superior Council of Prosecutors (SCP) as the prosecutorial governance body. To this end, the eventual removal of ex officio members of the SCP is envisioned.

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

**30. We will promote the integrity, capacity and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption.** In consultation with Fund staff, we improved the selection process for the head of the Anti-Corruption Prosecution Office (APO) in April 2022 by amending the Law on the Prosecution Service. We then immediately initiated the process for the selection of the head of the APO, in accordance with the amended Law on the Prosecution Service (**end-December 2022 structural benchmark**). The recruitment was completed in June 2022 and the new head of the APO took up her post on August 1, 2022. To ensure that the APO can function effectively and efficiently, we have been analyzing our anti-corruption institutional infrastructure to identify ways to improve criminal law enforcement efforts. Towards this end, we will amend relevant legislation to focus the efforts of the APO and NAC to high-level corruption involving investigation or prosecution of (i) public officials of high office and (ii) corruption "in large proportions" or "resulting in serious consequences", as defined by the Moldova Criminal Code **(end-December 2022 structural benchmark)**. We also commit to increase the operational autonomy of the APO by allowing it to have control over its human and financial resources. As a first step, we will implement the 2016 Law on the Prosecution Service, which stipulates that the specialized prosecution services shall have their own budgets. To ensure that the APO operates with an independent budget in 2024, we will amend the Order of the Ministry of Finance no. 208/2015 on Budget Classification to include APO as a separate line item (**new end-June 2023 structural benchmark**).

**31. Corruption enforcement is increasingly focusing on high-level corruption and recovering criminal proceeds.** During the first six months of 2022, the NAC provided support in parallel financial investigations in cases involving 22 former and current MPs, one former president, and one former Chair of Parliament, as well as 7 prosecutors and 3 judges, all holding leadership positions. We have also confiscated criminal assets in the amount of approximately 630 million Moldovan lei in the first half of 2022. We are also developing a database of seized assets, allowing for more transparency into the management of confiscated assets and the kinds of enforcement measures that have been taken following final court decisions. Among the priorities moving forward will be the intensification of scrutiny of high-level officials' sources of wealth, including assets held abroad, leveraging the asset declaration regime and the illicit enrichment offence. Towards this end, we aim to improve the effectiveness of our asset declaration regime, including with respect to October 2021 amendments to Law 132/133 requiring a fair market valuation in asset declarations. We also aim to implement a system of non-conviction-based confiscation starting in 2023.

**32. We remain resolute in achieving progress on asset recovery from the 2014 banking fraud** through criminal justice efforts and channels and cooperation with foreign counterparts, including on the establishment of joint investigative teams. We will bolster coordination among all domestic stakeholders under the leadership of the State Security Council. We will also establish procedures for post-conviction confiscation and identify a responsible body.

## F. Economic Statistics

**33. We remain committed to improve the quality of our economic statistics.** Our efforts continue to be geared towards enhancing the production and dissemination of economic statistics which remain vital for effective macroeconomic policy and decision making. However, the operational capacity of the National Bureau of Statistics is hampered inter alia by (i) limited human and financial resources; (ii) inadequacy of the ICT system; (iii) gaps in the legislative framework regarding the access to personal data from administrative and private data sources for statistical purposes; (iv) poor inter-institution coordination within the National Statistical System (NSS). To this end, we will develop a new multi-year strategic planning document for further development of the NSS that covers improvements in the production and dissemination of official statistics to enhance the quality and accessibility of statistical data. We will develop legal framework for statistical production in line with relevant EU standards, in particular to enable access to personal data from administrative and private sources for statistical purposes. We plan to strengthen coordination within the NSS and allocate adequate resources to improve data collection and processing.

## G. Program Monitoring

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

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

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

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

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

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

4/ Includes health, educational, and infrastructure spending.

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

| | Measure | Rationale | Timeframe | Status |
|---|---|---|---|---|
| **Prior Actions** | | | | |
| 1 | Parliament to adopt the 2023 budget in line with the macro-framework agreed with IMF staff, to bring the 2023 general government deficit to 6.0 percent of GDP, subject to financing availability. | Support macroeconomic recovery and mitigate impact of rising food and energy prices | | |
| 2 | Strengthen provisions for the institutional autonomy of the NBM: (i) the procedures and criteria for the appointment, resignation and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) clarifying managerial responsibilities for the governor and the executive board. | Strengthen the institutional autonomy and governance of the NBM | | |
| **Structural Benchmarks** | | | | |
| ***Anti-Corruption and Rule of Law*** | | | | |
| 1 | Amend relevant legislation to narrow the mandates of the APO and NAC to high-level corruption involving investigation or prosecution of (i) public officials of high office and (ii) corruption "in large proportions" or "resulting in serious consequences", as defined by the Moldova Criminal Code. | Promote the integrity, capacity and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption. | end-December 2022 | |
| 2 | Amend the Criminal and Criminal Procedure Codes to add clear criteria and procedures for the application of plea bargaining and other sentence reduction or mitigation provisions and to prohibitthe reduction of a term of imprisonment in corruption cases below the statutory minimum. | Strengthen enforcement of the anti-corruption legal framework | end-December 2022 | |
| 3 | In accordance with the amended Law on Prosecution Service, establish the special pre-selection committee, which includes experts with international experience, and appoint an individual with the necessary professional skills and irreproachable reputation to the head of the Anti-Corruption Prosecution Office (APO). | Strengthen anti-corruption institutions. | end-December 2022 | Met. |
| 4 | To ensure that the APO operates with an independent budget in 2024, amend the Order of the Ministry of Finance no. 208/2015 on Budget Classification to include APO as a separate line item. | Strengthen anti-corruption institutions | end-June 2023 | Proposed structural benchmark. |
| ***Fiscal Governance*** | | | | |
| 5 | Amend legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and extrabudgetary funds. | Strengthen the public investment management framework | end-September 2022 | Met. |
| 6 | Institutionalize tax expenditure reviews to be part of the annual State budget planning process. | Support fiscal consolidation and eliminate inefficiencies and inequities of the tax | end-March 2023 | |
| 7 | Extend the tax expenditure analyses to include excise, customs duties, and real estate tax. | Support fiscal consolidation and eliminate inefficiencies and inequities of the tax | end-December 2023 | Proposed structural benchmark. |
| 8 | Introduce a General Anti-Avoidance Rule provision in the Tax Code to counter domestic and international abusive tax practices. | Strengthen tax administration reforms and revenue mobilization | end-September 2023 | Proposed structural benchmark. |
| 9 | Implement an automated tax filling compliance program to improve on-time filing of tax returns, including by assigning penalties for late- or non-filing. | Strengthen tax administration reforms and revenue mobilization | end-December 2023 | Proposed structural benchmark. |
| ***Financial Sector Oversight*** | | | | |
| 10 | Strengthen provisions for the institutional autonomy of the NBM: (i) the procedures and criteria for the appointment, resignation and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) clarifying managerial responsibilities for the governor and the executive board. | Strengthen the institutional autonomy and governance of the NBM | end-October 2022 | Not met. Set as prior action #2. |
| 11 | Prepare a targeted review of the BRRL and the relevant secondary legislation, in line with good practices as appropriate to Moldova and based on IMF staff recommendations, to identify shortcomings, introduce more flexibility to the MREL requirement, the conditions of access to the resolution fund, and the participation of the DGF in the financing of the resolution measures | Strengthen financial safety net | end-June 2023 | |
| 12 | The NCFM will adopt secondary legislation on licensing, qualified shareholders, and fit-and-proper and prudential requirements. | Facilitate implementation of the Solvency II insurance framework | end-June 2023 | Proposed structural benchmark. |
| ***SOE and Regulatory Framework Reforms*** | | | | |
| 13 | The government will develop and adopt a state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization, or liquidation, as well as plans to strengthen their governance. | Improve SOE governance and reduce fiscal risks | end-September 2022 | Not met. Adopted in December 2022. |
| 14 | Complete a triage of SOEs owned by the central government, in line with the approved state-ownership strategy. | Improve SOE governance and reduce fiscal risks | end-December 2023 | Proposed structural benchmark. |

# Attachment II. Technical Memorandum of Understanding

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

## A. Quantitative Program Targets

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

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

Indicative targets are set on:

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

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

## B. Program Assumptions

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

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

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

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

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

## C. Institutional Definitions

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

## D. Program Definitions

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

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

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

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

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

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

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

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

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

**9.** The **ceiling on the cash deficit of the general government** is defined, as the sum of net credit of the banking system to the general government (as defined in paragraph 7), the general

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

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

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

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

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

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

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

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

**13.** For the purposes of the program, **external payments arrears** will consist of all overdue debt service obligations (i.e., payments of principal or interest, taking into account contractual grace periods) arising in respect of any debt contracted or guaranteed or assumed by the central government, or the NBM, or any agency acting on behalf of the central government. The **ceiling on accumulation of external payments arrears** shall apply on a continuous basis throughout the period of the arrangement. It shall not apply to external payments arrears arising from external debt being renegotiated with external creditors, including Paris Club creditors; and more specifically, to external payments arrears in respect of which a creditor has agreed that no payment needs to be made pending negotiations. External payment obligations for which the creditor has extended a payment deferral or payments are made into an escrow account due to the risks of blocking of the repayment by corresponding banks, do not constitute arrears for the purposes of this performance criterion.

**14.** The **general government wage bill** will be defined as sum of budget spending on wages and salaries of public sector employees—according to economic budgetary classification, including but not limited to employer pension contributions and other social security contributions, and other remunerations (such as bonus payments). This definition of the general government wage bill is in line with current spending reported in line "Wages" of the general government budget according to the program classification of the annual budget except for salaries of SOEs and health care providers that are compensated from the Health Insurance Fund (FAOAM) itself.[5]

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

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

## E. Inflation Consultation Mechanism

**17.** The monetary conditionality will include a set of quarterly inflation targets measured as the inflation of the headline consumer price index (CPI) published by the Moldovan National Bureau of

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

Statistics set within tolerance bands. The inner band is specified as ±1.5 percentage point around the central point. The outer band adds an additional ±1.5 percentage point to the inner band. Deviations from the bands would trigger a consultation with the staff or Executive Board which would focus on: (i) a broad-based assessment of the stance of monetary policy and whether the Fund-supported program is still on track; and (ii) the reasons for program deviations, taking into account compensating factors and proposed remedial actions if deemed necessary.

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

**Inflation Consultation Bands**

| | 2022 | | | 2023 | | | |
|---|---|---|---|---|---|---|---|
| | June | September | December | March | June | September | December |
| Outer Band (upper limit) | 32.5 | 37.0 | 33.0 | 25.0 | 16.0 | 11.5 | 11.0 |
| Inner Band (upper limit) | 31.0 | 35.5 | 31.5 | 23.5 | 14.5 | 10.0 | 9.5 |
| **Center point** | **29.5** | **34.0** | **30.0** | **22.0** | **13.0** | **8.5** | **8.0** |
| Inner Band (lower limit) | 28.0 | 32.5 | 28.5 | 20.5 | 11.5 | 7.0 | 6.5 |
| Outer Band (lower limit) | 26.5 | 31.0 | 27.0 | 19.0 | 10.0 | 5.5 | 5.0 |

## F. Adjusters

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

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

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

**22.** The **floor on NIR** of the NBM will be lowered by any shortfall in the official external grants and loans up to the equivalent of US$79.6 million and US$290.5 million respectively, in 2022, valued at the program exchange rates.

**Programmed External Financing Flows [1/]**

(Cumulative from the beginning of the calendar year)

| | 2022 | | | 2023 | | | |
|---|---|---|---|---|---|---|---|
| | June | September | December | March [2/] | June | September [2/] | December |
| | Prog. Target | Prog. Target | Prog. Target | Prog. Target | Prog. Target | Prog. Target | Prog. Target |
| Programmed external financing flows to adjust the floor on the NIR target (US$ million) | 185 | 278 | 476 | 147 | 294 | 440 | 587 |
| Programmed external financing flows to adjust the ceiling on the cash deficit (MDL million) | 3,663 | 5,494 | 8,899 | 3,155 | 6,310 | 9,466 | 12,621 |

1/ Excluding IMF financing.

2/ Indicative targets for March and September.

## G. Reporting Requirements

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

**Table 1. Moldova: Data to be Reported to the IMF**

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

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

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

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

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

# REPUBLIC OF MOLDOVA

## SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, AND REQUEST FOR WAIVER OF APPLICABILITY FOR PERFORMANCE CRITERIA—DEBT SUSTAINABILIT ANALYSIS

December 19, 2022

Approved By
**Julie Kozack (EUR), Maria Gonzales (SPR), Marcello Estevão and Lalita M. Moorty (IDA)**

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

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

*The Debt Sustainability Analysis (DSA) assesses Moldova at low risk of external debt distress and overall public debt at moderate risk of distress, unchanged from the May 2022 DSA.[1] Moldova's public debt is considered sustainable with current debt carrying capacity assessed as strong,[2] despite the envisaged increasing financing needs to mitigate the economic and humanitarian fallout of the war in Ukraine, and the projected medium-term developmental spending needs. Overall, the public debt trajectory remains vulnerable to risks, particularly from shocks to real GDP growth, calling for the need to broaden growth drivers and to remain committed to prudent fiscal policy under the ECF/EFF program. In addition, improving governance, enhancing the effectiveness of public spending, and strengthening the management of fiscal risks, including those stemming from state-owned enterprises (SOEs), are priorities to contain public debt vulnerabilities.*

[1] The previous DSA, dated May 3, 2022, accompanied Moldova's Staff Report for an Ad Hoc review under the ECF/EFF program and request for augmentation and rephasing of access, modification of performance criteria and completion of the inflation consultation, IMF Country Report No. 22/140.

[2] Moldova's Composite Indicator (CI) index, based on October 2022 WEO update and the World Bank's 2021 Country Policy and Institutional Assessment (CPIA), indicates that the country's debt carrying capacity remain strong (3.11).

# PUBLIC DEBT COVERAGE

1. **Moldova's public debt includes obligations of the public sector (central government, local authorities, and public entities).** Public debt includes external and domestic obligations of the central government, including arrears to suppliers and guaranteed debt. Domestic debt includes debt of state and municipal enterprises, companies with full or majority public ownership, and of local public authorities with maturity of a year and above, as stipulated in Law No. 419 (2006) on Public Sector Debt, State Guarantees and State On-lending.[3] Debt contracted by the central government and central bank owed to the IMF is also covered.[4] The debt coverage is on the residency basis.

**Text Table 1. Moldova: Public Debt Coverage**

Public debt coverage

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

Public debt coverage and the magnitude of the contingent liability tailored stress test

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

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

# BACKGROUND ON DEBT

2. **Public debt declined in 2021 to 33.2 percent of GDP, from almost 34 percent of GDP in 2020, reflecting unwinding of the pandemic-induced increase in borrowing and the denominator effect from strong GDP.** Public and publicly guaranteed (PPG) debt reached almost 34 percent of GDP in 2015 up from about 27 percent of GDP in 2010 (Text Figure 1). A key driver of

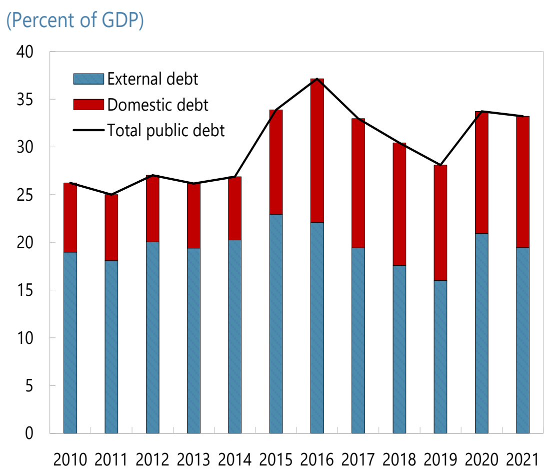
[3] PPG debt covers gross debt of the general government. SOE debt in Moldova is primarily driven by externally financed project loans that are on-lent by the central government to SOEs. Both on-lending to the private sector (operationalized through commercial banks) and to SOEs are part of public guarantees and are included in the central government debt. Non-guaranteed SOEs debt is also included in the public debt. Debt of SOEs with maturity longer than a year accounts for about 2 percent of GDP as of 2021. Staff and the authorities will define an agenda with concrete steps towards expanding debt coverage for local governments' debt, SOEs and PPPs to include all existing debt obligations. Due to the lack of data, information on PPPs is currently limited. The change in coverage complicates intertemporal analysis of PPG debt. The contingent liabilities shock from SOE debt is set at the default value of 2 percent of GDP to reflect risks associated with borrowing of SOEs majority owned by the state, while a contingent liability shock of 12 percent of GDP is meant to also capture risks from PPPs and SOEs that are partially owned by the state.

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

the spike in the public debt was the issuance of a state guarantee to the National Bank of Moldova (NBM) to provide emergency liquidity to the banking sector. During 2016–19, public debt was on a downward trend, returning towards the level seen in 2010. However, in 2020, COVID pandemic-induced borrowing pushed up public debt, driven by increases in both domestic and external debt (Table 1).[5] A rebound in strong economic activity and receding tailwinds from COVID-19 reduced government spending and borrowing in 2021, contributing to a decline in public debt to 33.2 percent of GDP. Currently, over half of PPG external debt is from multilateral institutions and about a third of PPG domestic marketable debt are long-term debt securities (government securities with maturity longer than one year). Other domestic marketable debt is mainly short-term and held by the banking system. In addition, the stock of domestic arrears to suppliers amounting to about MDL 30 million (0.01 percent of GDP) by end-2021 is included in domestic debt.

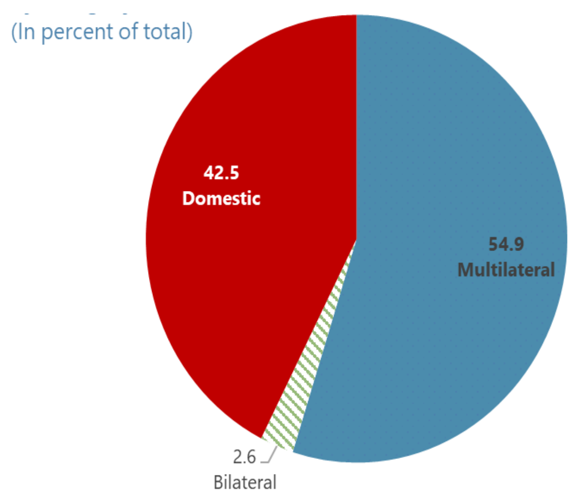
**Text Figure 1. Public and Publicly Guaranteed Debt**

**Evolution of Public Debt, 2010–2021**



Source: IMF WEO and IMF staff calculations.

**Composition of Public Debt Stock at end-2021**




**3. Similarly, Moldova's gross total external debt declined by almost 9 percentage points of GDP in 2021 from 73.5 percent of GDP in 2020, driven by reduced private external borrowing.** In 2021, PPG external debt declined by 1.5 percentage points of GDP from 2020 of about 21 percent of GDP, reflecting tailwinds of the base effect of higher external borrowing to mitigate the effects of the pandemic in 2020 compared to about 16 percent of GDP in 2019. The observed reduction of gross total external debt during 2016–19 largely reflects the decline in private external debt, which at above 40 percent of GDP since 2010[6], remains relatively elevated compared to peers. The strong appreciation of the nominal exchange

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

[6] Private external debt includes Moldovagaz debt owed to Gazprom for gas delivery to Moldova, contributing to a peak in private external debt at about 47 percent of GDP in 2024, with the total external debt reaching 77.3 percent of GDP.

## Table 1. Moldova: Decomposition of Public Debt and Debt Service by Creditor, 2021–23 1/

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

| | Debt Stock (end of period) | | | Debt Service | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| | | *(Percent total debt)* | *(Percent GDP)* | | | | *(Percent GDP)* | | |
| **Total** | 4611.3 | 100.0 | 33.7 | 1925.4 | 1704.6 | 2060.7 | 14.1 | 11.7 | 13.4 |
| **External** | 2650.9 | 57.5 | 19.4 | 226.0 | 205.3 | 342.3 | 1.7 | 1.4 | 2.2 |
| Multilateral creditors[2,3] | 2532.1 | 54.9 | 18.5 | 154.4 | 170.9 | 332.1 | 1.1 | 1.2 | 2.2 |
| IMF | 832.0 | 18.0 | 6.1 | | | | | | |
| World Bank | 813.5 | 17.6 | 5.9 | | | | | | |
| ADB/AfDB/IADB | 0.0 | 0.0 | 0.0 | | | | | | |
| Other Multilaterals | 886.6 | 19.2 | 6.5 | | | | | | |
| *o/w: list largest two creditors* | 580.7 | 12.6 | 4.2 | | | | | | |
| *EIB* | 422.2 | 9.2 | 3.1 | | | | | | |
| *EBRD* | 158.5 | 3.4 | 1.2 | | | | | | |
| list of additional large creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| Bilateral Creditors[2] | 118.8 | 2.6 | 0.9 | 60.5 | 34.4 | 10.2 | 0.4 | 0.2 | 0.1 |
| Paris Club | 111.8 | 2.4 | 0.8 | 23.7 | 28.1 | 10.0 | 0.2 | 0.2 | 0.1 |
| *o/w: list largest two creditors* | 68.8 | 1.5 | 0.5 | | | | | | |
| *JICA* | 49.6 | 1.1 | 0.4 | | | | | | |
| *Government of Russia* | 19.2 | 0.4 | 0.1 | | | | | | |
| list of additional large creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| Non-Paris Club | 7.0 | 0.2 | 0.1 | 36.8 | 6.3 | 0.2 | 0.3 | 0.0 | 0.0 |
| o/w: list largest two creditors | 6.5 | 0.1 | 0.0 | | | | | | |
| Government of Romania | 5.7 | 0.1 | 0.0 | | | | | | |
| Novo Gaming M Technologies GMBH | 0.9 | 0.0 | 0.0 | | | | | | |
| list of additional large creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| Bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commercial creditors | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| o/w: list largest two creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| list of additional large creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| Other international creditors | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *o/w: list largest two creditors* | 0.0 | 0.0 | 0.0 | | | | | | |
| list of additional large creditors | 0.0 | 0.0 | 0.0 | | | | | | |
| **Domestic** | 1960.4 | 42.5 | 14.3 | 1699.3 | 1499.4 | 1718.4 | 12.4 | 10.3 | 11.2 |
| Held by residents, total | 1960.3 | 42.5 | 14.3 | 1699.3 | 1499.4 | 1718.4 | 12.4 | 10.3 | 11.2 |
| Held by non-residents, total | 0.1 | 0.0 | 0.0 | | | | | | |
| T-Bills | 1021.2 | 22.1 | 7.5 | 1410.8 | 1373.1 | 1488.6 | 10.3 | 9.4 | 9.7 |
| Bonds | 854.7 | 18.5 | 6.2 | 212.8 | 95.1 | 204.3 | 1.6 | 0.7 | 1.3 |
| Loans* | 84.5 | 1.8 | 0.6 | 75.7 | 31.1 | 25.4 | 0.6 | 0.2 | 0.2 |
| **Memo Items:** | 103.4 | | | | | | | | |
| Collateralized debt[4] | 0.0 | 0.0 | 0.0 | | | | | | |
| o/w: Related | 0.0 | 0.0 | 0.0 | | | | | | |
| o/w: Unrelated | 0.0 | 0.0 | 0.0 | | | | | | |
| Contingent liabilities | 103.4 | | 0.8 | 0.0 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 |
| o/w: Public guarantees | 103.4 | | 0.8 | 0.0 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 |
| o/w: Other explicit contingent liabilities[5] | 0.0 | 0.0 | 0.0 | | | | | | |
| Nominal GDP | 13679.2 | | | 13679.2 | 14613.4 | 15402.3 | | | |

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

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

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

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

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

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

rate by about 14 percent during this period amid renewed capital inflows also contributed to the reduction in gross external debt. The recent decline in private sector debt was due to a decrease in overseas borrowing by the banking sector, reflecting the aftereffects of the impact of the banking crisis in 2014.[7] Similar to other Central and Eastern European countries, while gross total external debt in Moldova is sizable at 64.2 percent of GDP in 2021, about two-third of the private debt are liabilities to direct investors (Moldovan foreign-owned companies borrowing from their parent companies abroad). Short-term debt of the non-bank sector is high as well, about one-third of non-bank debt, and consists of trade credits, arrears, and other debt liabilities, mostly for the import of natural resources. Foreign assets of the non-bank sector have shrunk in recent years but remain sizable (about 35 percent of gross nonbank external liabilities) and mainly held in the form of currency, deposits, and short-term loans (trade credits). Thus, while high private external debt in Moldova continues to pose risks to external debt sustainability, risk of external public debt distress is assessed as low because PPG external debt is held mainly by multilateral and bilateral donors and is mostly medium and long term and on concessional terms.

# MACROECONOMIC OUTLOOK

**4. The macroeconomic assumptions underlying the projections are consistent with the baseline in the second review of the ECF/EFF-supported program.** The main changes relative to the previous DSA of May 2022 include downward revision to the 2022–25 real GDP growth, almost doubling of the 2022 annual inflation (affecting both the nominal GDP and GDP deflator), and upward adjustment to the nominal GDP (Text Table 2). In addition, the fiscal deficit for 2022 was also revised down by 3 percentage points of GDP, while for 2023 it was revised up by 0.9 percentage point of GDP. Additional financing has mostly been on concessional terms, coupled with an uptick in grants. Long run macroeconomic assumptions remain broadly unchanged. Economic performance is expected to remain solid over the medium term, with steady growth, moderate inflation, and a gradual narrowing of the current account deficit. Risks to the near-term outlook are significant and tilted to the downside as Moldova continues to grapple with persistent external and domestic headwinds.

- **Real GDP.** 2021 real GDP growth was higher than envisaged, jumping to almost 14 percent, reflecting a stronger-than-expected recovery from the pandemic.[8] However, the economy is expected to contract by 1.5 percent in 2022 with more subdued recovery in the near-term, owing to impact on Moldova from the war in Ukraine, weaker growth profile for the trading partners, and a drought this year that weighed on agriculture. Spillovers from the war will impact the economy through a variety of channels in the near and medium-term: disruptions to trade depressing net exports, adverse confidence effects weighing on foreign and domestic investment and exerting pressure on FX market.

[7] National Bank of Moldova (NBM) is working continuously on improving the coverage of private sector debt. This explains the changes in historical debt numbers from period to period.

[8] In 2018, Moldova's National Bureau of Statistics (NBS) published revised GDP series for 2016 and 2017, based on new methodology to reflect: a) implementation of the UN's System of National Accounts 2008 (2008 SNA) and the European System of Accounts 2010 (ESA 2010); and b) statistical improvements regarding data sources and compilation methods. The changes were introduced with technical assistance from the Fund. As a result of the new methodology, the level of both nominal and real GDP was revised up by about 17 percent. The sizeable GDP revision implies a reduction in key macroeconomic ratios (including debt-to-GDP ratios).

Remittances could also be impacted, although the impact is unknown at this point. High energy costs, in particular the hike in gas and electricity tariffs, coupled with anticipated higher food prices and implied uncertainty are also expected to negatively affect aggregate demand. The economic impact of the war is projected to persist over the medium term, with real GDP standing at 10 percent below its pre-conflict level in 2026. Over the medium term, the additional fiscal support envisioned under the program is expected to be directed to address critical human and infrastructure bottlenecks (which have been ringfenced by a "floor" in the development spending as part of the IMF-supported program).

- **Inflation.** Driven by rising food prices and adjustments in energy tariffs, inflation accelerated to 34.6 percent (y/y) in October, due to still-high food and energy prices. The war in Ukraine is also putting pressure on the MDL which depreciated significantly since Russian invasion of Ukraine, with pass-through expected to exert pressure on domestic prices. Recent developments in the gas market have further complicated the picture due to high tariff adjustments feeding into regulated prices, while the implied decrease in purchasing power and arising uncertainty might curtail aggregate demand and core inflation. For 2022, average inflation is projected to rise to almost 29 percent (y/y), before receding towards the inflation target at end-2024 and over the medium-term, where inflation is expected to remain broadly anchored around the National Bank's inflation target. The inflation outlook is subject to significant downside risks.

- **Fiscal.** The fiscal position improved in 2021, with the deficit falling to 2.6 percent of GDP from 5.3 percent in the previous year due to spending under-execution and buoyant revenues, including increased grant financing. However, the energy crisis and spillover effects of the war in Ukraine are expected to strain the government balance sheet in 2022, with the deficit expected to increase to 4.2 percent of GDP, significantly lower than budgeted, reflecting strong revenue performance and under-execution of capital and current expenditures. The deficit is envisaged to edge up to 6 percent in 2023. Revenues are projected to remain broadly stable in near and medium-term as a share of GDP relative to last year. On the expenditure side, the acceleration is largely driven by current spending, with transfers, goods and services, and wages largely reflecting policies to mitigate the unfolding crises, raising fiscal deficit, and exacerbating external financing needs. These multiple crises could complicate the implementation of some reforms envisioned under the ECF/EFF arrangement. However, over the medium-term, improvements in revenue and spending efficiency and supporting governance reforms under the program are expected to support fiscal consolidation and improve debt sustainability. Measures to be taken to that effect include strengthening tax administration and improving tax compliance; streamlining of tax exemptions; improvements to the efficiency of capital spending by strengthening public investment management; strengthening the unified public wage system and improving control over the wage bill; and current expenditure rationalization. Given the shock to revenues, the crisis-driven expansion in necessary spending, and binding domestic financing constraints in 2022, total public debt is envisaged to peak at about 40 percent of GDP in 2024 before declining to about 38 percent in 2027.

- **External sector.** The current account deficit worsened to 11.7 percent of GDP in 2021, from about 8 percent of GDP in 2020, reflecting a strong rebound in economic activity and an uptick in the energy import bill. The current account deficit is expected to worsen further to 13.4 percent of GDP in 2022 due to reduced exports and a spike in commodity prices of imports, before narrowing to 8.3 percent of GDP by 2027; financed by capital and investment flows catalyzed by the ECF/EFF program. Despite the pandemic, the MDL strengthened in 2020–21, but is expected to weaken in 2022, reflecting an increase in imports coupled with subdued capital inflows due to the heightened uncertainty. At end-December 2021, gross international reserves stood at US$3.9 billion, up from US$3.78 billion recorded in 2020, to comprise 173.6 percent of the Fund's composite reserve adequacy metric. Gross international reserves are expected to decline in 2022 due to a slump in capital inflows amid heightened uncertainty and an increase in commodity prices of imports but are expected to trend upward from 2023 and beyond, ensuring reserves adequacy.

- **External borrowing.** The DSA assumes that all contracted but undisbursed concessional loans will be fully disbursed over the medium-term as planned by the authorities. Commercial borrowings, with Moldova having graduated from IDA-eligible borrowing in 2021, are projected to rise over the longer term to finance the country's high development needs. This plays a key role in the DSA and explains to some extent the upward shift in debt burden indicators after 2030, including for total external debt level indicators.[9] Moldova will continue to benefit from significant grant financing in the medium-term, driven in large part by the profile of the new concessional borrowing with the grant element of new borrowing above 35 percent. In the short-term, the external financing need—estimated at about US$663 million in 2022[10]—will be fully covered by the World Bank's Development Policy Operation (DPO) (US$159.2 million),[11] the European Commission (US$132.1 million), other development partners' disbursements (about US$198.3 million), and the augmented ECF/EFF disbursement of about US$173.3 million (SDR 149.45 million, of which SDR 65.65 million under the EFF and SDR 83.8 million under the ECF), all of which are to be disbursed for budget support.[12] In 2023–25, the remaining external financing gap of US$1,270 million will be financed mainly by the IMF disbursements (around US$545 million) under the ECF/EFF program, European Commission funds via macro-financial assistance to Moldova under a new financing package (about US$349 million), the World Bank's DPO (US$157 million), and other development partners' disbursements (US$219 million).

- **Public debt-to-GDP ratio is expected to increase in 2022–24 with an increase in domestic and external borrowing.** An increase in public debt reflects the government increasing financing needs to mitigate the economic and humanitarian spillovers of the war in Ukraine, while also responding to rising energy cost and food prices. In 2022, external debt is envisaged to rise by about 6 percentage points of GDP with financing from multilateral and bilateral sources. Domestic borrowing is assumed to

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

[10] Exceptional financing.

[11] This includes exceptional financing from the IDA19 Crisis Response Window, as approved by the Board of Executive Directors in June 2021 and the approval of the Exceptional IDA19 Support to Moldova endorsed by IDA Deputies in April 2022.

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

be net zero in 2022, covering the costs of rolling over existing debt. Demand for government securities is expected to improve in 2023, allowing modest net financing of about MDL 1 billion and thereafter demand is assumed to resurge. The weighted average interest rate on short-term debt is assumed to be around 16 percent in 2022, falling to 13 percent in 2023 and declining thereafter over the medium-term to 8–9 percent.

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

| | 2019-2021 | 2022-2027 | 2028-2032 | 2022-32 |
|---|---|---|---|---|
| **Real GDP growth (percent)** | | | | |
| Curent DSA | 3.1 | 3.2 | 5.1 | 4.1 |
| Previous DSA | 3.1 | 3.9 | 5.0 | 4.4 |
| **Inflation (GDP deflator, in US dollar terms)** | | | | |
| Curent DSA | 4.0 | 1.9 | 1.9 | 1.9 |
| Previous DSA | 3.3 | 0.8 | 1.9 | 1.3 |
| **Total Revenue (percent of GDP)[1]** | | | | |
| Curent DSA | 30.6 | 31.6 | 32.5 | 32.0 |
| Previous DSA | 30.4 | 31.6 | 33.0 | 32.2 |
| **Current Account Deficit (non-interest, in percent of GDP)** | | | | |
| Curent DSA | 9.0 | 9.6 | 6.4 | 8.1 |
| Previous DSA | 8.9 | 9.6 | 6.6 | 8.2 |

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

5. **The debt sustainability framework's realism tools suggest that the baseline projections are reasonable (Figures 3 and 4).** There is a deviation in the evolution of the projection of external and PPG debt to GDP ratios for the current and previous DSA vintages, and from the DSA from the 5 years past. In terms of projections, the current DSA deviates from the previous DSA mainly due to the incorporation of revised macroeconomic and borrowing assumptions. For the **external public debt**, projected debt ratios over the medium term have risen owing to an expected increase in financing needs to provide social and economic support to cushion the effects of the war in Ukraine on Moldova and increased energy costs, in line with 5-year ahead projected changes. In addition, marginally higher financing cost (compared to the previous 5 years) is also projected to increase debt ratios. The increase in the external debt ratio relative to the five-year historical change is due mostly to exchange rate movements, other residuals, and developments in the current account and FDI.[13] For the **total public debt**, the increase in the projected debt ratios to GDP in the medium term is driven mainly by the widening primary balance and exchange

[13] The relatively large residuals in external financing mainly reflect a drawdown of reserves, caused by financing from the capital and financial accounts falling short of the current account deficit, and change in the private sector debt.

rate movements which more than offsets the negative contribution to debt from strong real GDP growth, whereas the decline compared to the five-year historical debt ratios was due to real exchange rate factors and resilient real GDP growth. The difference over 2021–22 between the baseline growth projections and growth projections implied by the standard fiscal multipliers in Figure 4, reflects the scarring impact of the COVID pandemic in some sectors of the economy and the war in Ukraine on confidence in the economy in 2022. Growth is expected to rebound in 2023 to 1.5 percent and to hover at an average of 5 percent in the medium-term. The projected 3-year adjustment in the primary deficit is similar to observed in historical data from peers with Fund-supported programs (Figure 4) and is consistent with the authorities' commitment with continued fiscal consolidation.

6. **Public investment and growth.** The ECF/EFF-supported program aims at augmenting public investment with growth-enhancing structural reforms, including SOEs reform, and an improvement of the business environment. Both are expected to crowd-in and enhance domestic and foreign private investments in support of the higher projected growth trajectory over the medium term (Figure 4).

# COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

7. **Moldova's debt carrying capacity is assessed to be strong, unchanged from the previous DSA.** The composite indicator (CI), which captures the impact of several factors through a weighted average of an institutional indicator,[14] real GDP growth, remittances,[15] international reserves, and world growth, confirms that Moldova's debt carrying capacity is classified to be strong, which is unchanged from the previous two DSA rounds. Applicable thresholds and benchmark are presented in Text Table 3.[16]

8. **The DSA includes a stress test that follows standardized settings.[17]** All the PPG external debt indicators remain below the policy relevant thresholds (Table 4 and Figure 1). The standardized stress test indicates a breach of public debt thresholds beyond 2030 (Table 5 and Figure 2). Moldova does not have prominent economic features such as significant reliance on commodity exports, market financing that would require additional tailored stress tests or other modules, nor severely affected by natural disasters. Regarding the contingent liability stress test, a shock of 12 percent of GDP is used. The severity of the shock was calibrated to the most recent domestic banking crisis event in 2016 that resulted in recapitalization of about 8.3 percent of GDP.

[14] The World Bank's CPIA.

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

[16] Moldova's CI is 3.11, which corresponds to a strong debt-carrying capacity based on the IMF's October 2022 World Economic Outlook and World Bank's 2021 CPIA.

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

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

**Debt Carrying Capacity and Thresholds**

| | |
|---|---|
| Country | Moldova |
| Country Code | 921 |
| Debt Carrying Capacity | Strong |

| Final | Classification based on current vintage | Classification based on the previous vintage | Classification based on the two previous vintages |
|---|---|---|---|
| Strong | Strong<br>3.11 | Strong<br>3.13 | Strong<br>3.14 |

Note: Until the April 2019 WEO vintage is released, the two previous vintages ago classification and corresponding score are based solely on the CPIA per the previous framework.

**Applicable thresholds**

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

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

# EXTERNAL DEBT SUSTAINABILITY ANALYSIS

9. **Under the baseline scenario and alternative scenarios, all external debt indicators continue to remain below their policy-relevant thresholds (Table 2, Figure 1).** During 2022–27, new external financing will consist primarily of borrowing from multilateral and bilateral lenders, while commercial borrowing is expected to start playing a larger role in the long-term from 2029, reaching about 70 percent of total public sector borrowing by 2042. The present value of PPG external debt is projected at 16.7 percent of GDP in 2022, decreasing to almost 9 percent by 2032. The ratio will remain well below the 55 percent threshold under the baseline scenario throughout the projection period. Similarly, debt service indicators remain below their respective thresholds. Improvements in debt-management practices envisaged under the authorities' reforms supported by the ECF/EFF program and development of domestic debt market will give further resilience to shocks affecting debt service needs. A tailored stress test for the contingent liability shock also does not cause any breach of relevant thresholds. Under the most extreme scenario (export shock), most PPG debt indicators show increase in their values but remain well below their indicative thresholds. These outcomes hinge on continued prudent fiscal policy and sound macroeconomic and debt management policies envisaged under the ECF/EFF program. Additionally, market financing risk

module indicates a moderate risk of heightened liquidity pressures. However, the shock is not relevant as Moldova does not plan to issue market debt in the near future.

**10. While the external risk rating is determined by the PPG external debt, large private external debt poses some potential rollover risks.** In the baseline scenario, private external debt to GDP ratio is expected to remain broadly stable at about 44 percent of GDP in 2022, but it is envisaged to decline to about 36 percent of GDP in 2032 supported by the strong real growth and by a larger contribution of FDIs and other non-debt creating flows to the current account financing. Potential rollover risks from a significant stock of private sector debt are partly mitigated by private sector savings abroad.

# PUBLIC DEBT SUSTAINABILITY ANALYSIS

**11. Under the baseline, the indicators of the overall public debt burden are below the benchmark threshold, but risks remain.** Under the baseline, the PV of total PPG debt-to-GDP ratio is projected to increase initially to about 28 percent of GDP in 2022, from about 27 percent of GDP in 2020, and is expected to broadly stabilize around 30 percent of GDP over the medium-term, remaining below the 70 percent benchmark in the medium-to-long term (Figure 2).

**12. The ratio of PV of total PPG debt-to-GDP ratio exceeds its threshold under the real GDP growth shock**. Over the long-term, under possible real GDP growth shock scenario[18] it remains elevated, breaching the threshold starting from 2030, as the country accumulates higher debt to finance larger fiscal and current account deficits. Such a scenario highlights the risks to debt sustainability faced by the authorities in the absence of needed reforms. A significant contingent liabilities shock (to SOEs and PPPs and/or financial market distress) would also increase debt levels notably, though such risks are difficult to quantify accurately due to lack of quality data on SOEs and PPPs. The authorities' planned structural reforms underpinned by the ECF/EFF program are expected to improve revenues, increase spending efficiency, and boost growth, thereby mitigating further risk of unsustainable debt. As such, Moldova's overall debt trajectory is projected to remain sustainable despite the expansion in fiscal spending under the ECF/EFF program that is needed to achieve pressing developmental goals as well as to support the post-Covid recovery and provide economic and humanitarian assistance due to the war in Ukraine.

# RISK RATING AND VULNERABILITIES

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

- **Debt burden indicators for PPG external debt remain well below the indicative debt thresholds, under both the standardized and tailored stress tests.** However, significant private external debt poses potential roll-over risks.

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

- **Moldova's overall public debt dynamics is also projected to remain on a sustainable path under the baseline scenario but subject to vulnerabilities a growth shock.** Assuming the economy stalls with the lingering effects, the public debt ratio exceeds its benchmark by the end of the decade leading to an overall public debt at moderate risk of distress.

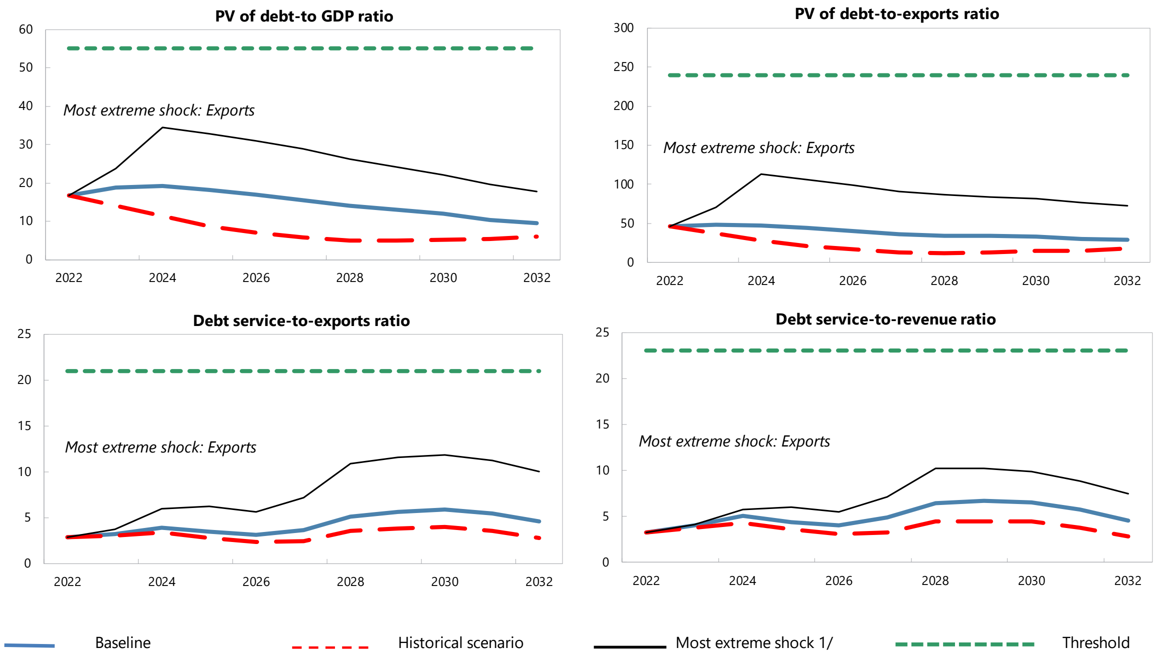
- **Risks to the debt outlook are significant and tilted to the downside.** Given sensitivity of the debt projections to growth, adverse spillovers from a protracted war in Ukraine, coupled with increased financing needs to cater for high cost of energy import present significant risk to the outlook on debt as Moldova continues to grapple with persistent external and domestic headwinds.

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

## AUTHORITIES' VIEW

14. **The authorities broadly agreed with the staff's assessment of Moldova's public debt situation and recommendations on debt management policy.** They broadly concurred with the staff's assessment of debt composition, projections, risk ratings and distress level. They recognize that maintaining fiscal discipline and managing fiscal risks is critical to ensure fiscal and debt sustainability. While they have been making progress on debt management, they highlighted the need for further development of domestic debt market and improvement in debt statistics and debt management frameworks by making full use of IMF technical assistance and training resources.

## Figure 1. Moldova: Indicators of Public Guaranteed External Debt Under Alternative Scenarios, 2022–2032




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

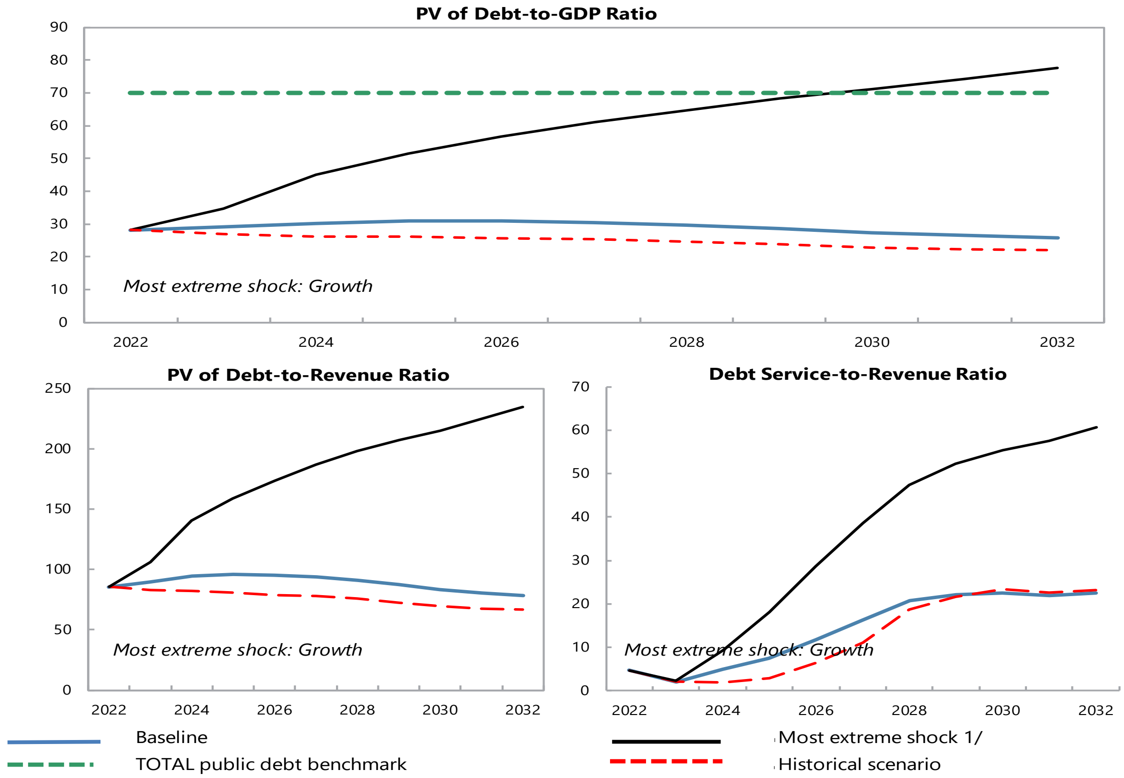
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

| Borrowing assumptions on additional financing needs resulting from the stress tests* | | |
|---|---|---|
| | Default | User defined |
| **Shares of marginal debt** | | |
| External PPG MLT debt | 100% | |
| **Terms of marginal debt** | | |
| Avg. nominal interest rate on new borrowing in USD | 2.6% | 2.6% |
| USD Discount rate | 5.0% | 5.0% |
| Avg. maturity (incl. grace period) | 21 | 21 |
| Avg. grace period | 3 | 3 |

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. 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, 2022–2032




| Borrowing assumptions on additional financing needs resulting from the stress tests* | Default | User defined |
|---|---|---|
| **Shares of marginal debt** | | |
| **External PPG medium and long-term** | 37% | 37% |
| **Domestic medium and long-term** | 32% | 32% |
| **Domestic short-term** | 31% | 31% |
| **Terms of marginal debt** | | |
| **External MLT debt** | | |
| **Avg. nominal interest rate on new borrowing in USD** | 2.6% | 2.6% |
| **Avg. maturity (incl. grace period)** | 21 | 21 |
| **Avg. grace period** | 3 | 3 |
| **Domestic MLT debt** | | |
| **Avg. real interest rate on new borrowing** | 0.3% | 0.3% |
| **Avg. maturity (incl. grace period)** | 3 | 3 |
| **Avg. grace period** | 1 | 1 |
| **Domestic short-term debt** | | |
| **Avg. real interest rate** | 2.7% | 2.7% |

* 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.

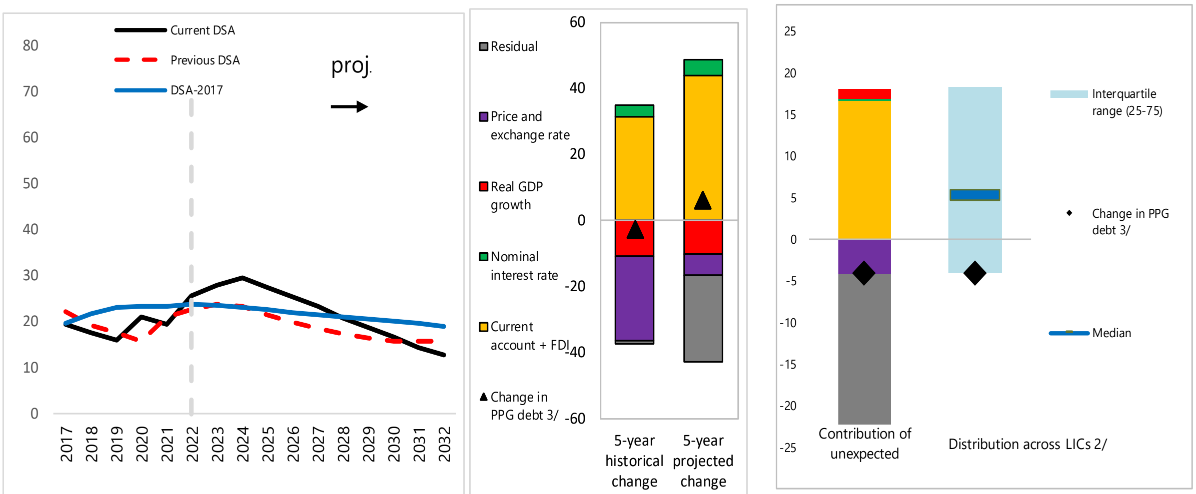
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. 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

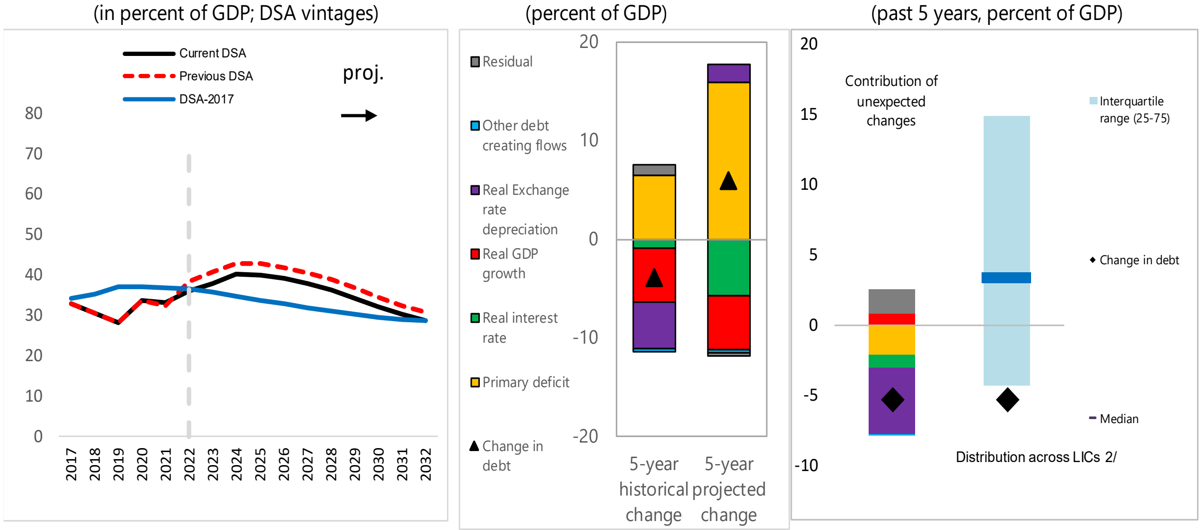
### External debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)




### Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



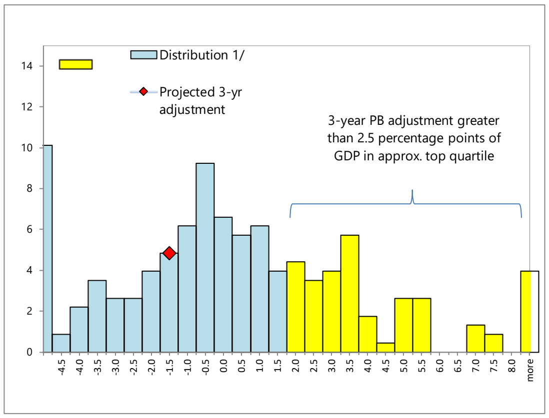

1/ Difference between anticipated and actual contributions on debt ratios.

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.

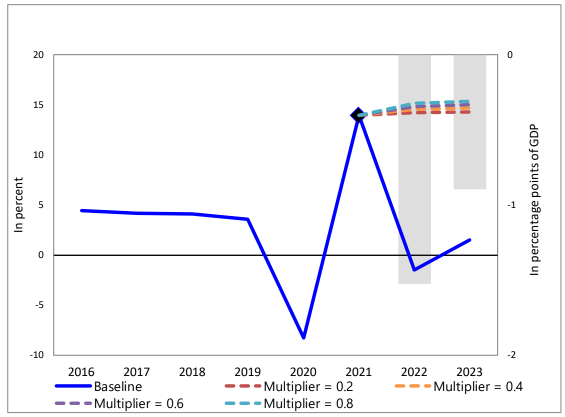
## Figure 4. Moldova: Realism Tools

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



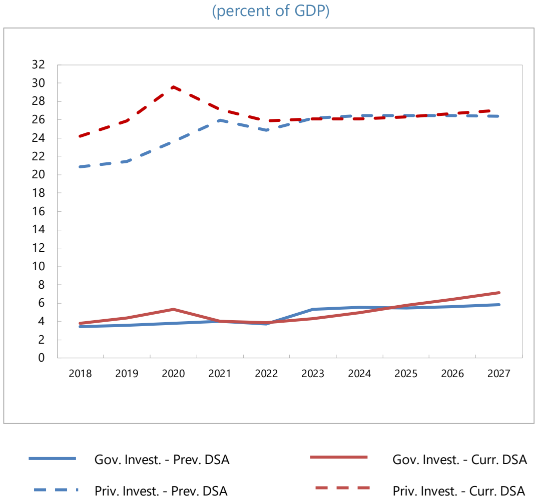

1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

**Fiscal Adjustment and Possible Growth Paths 1/**

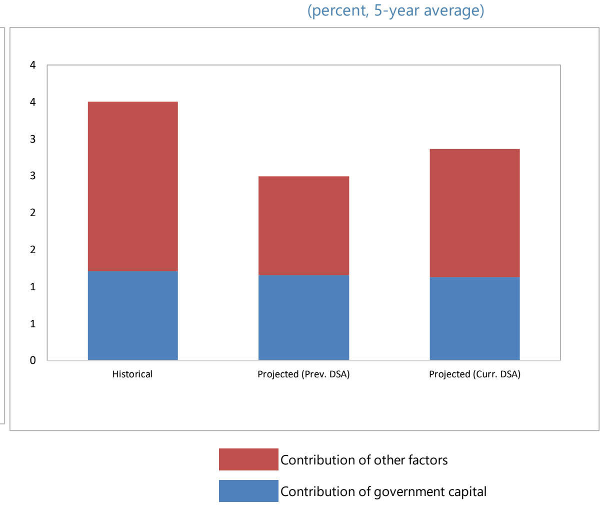



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

**Public and Private Investment Rates**
(percent of GDP)




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

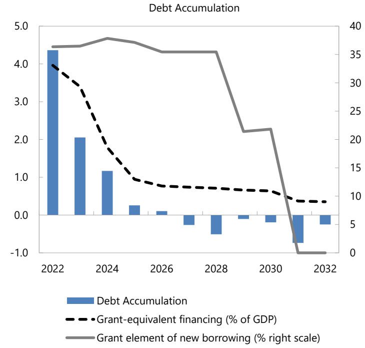


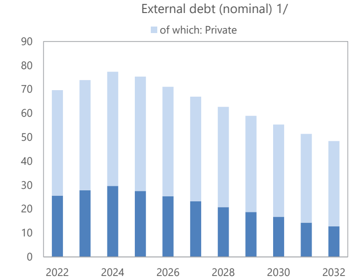
# Table 2. Moldova: External Debt Sustainability Framework, Baseline Scenario, 2021–2042

## (in percent of GDP, unless otherwise indicated)

| | Actual | Projections | | | | | | | | Average 8/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2032 | 2042 | Historical | Projections |
| **External debt (nominal) 1/** | **64.2** | **69.7** | **73.9** | **77.3** | **75.3** | **71.1** | **66.9** | **48.4** | **36.4** | **71.2** | **64.6** |
| ***of which: public and publicly guaranteed (PPG)*** | **19.4** | **25.6** | **27.9** | **29.6** | **27.5** | **25.3** | **23.3** | **12.7** | **10.5** | **19.8** | **22.0** |
| Change in external debt | -9.2 | 5.4 | 4.2 | 3.5 | -2.0 | -4.3 | -4.1 | -3.0 | -0.8 | | |
| **Identified net debt-creating flows** | **-1.6** | **13.9** | **9.3** | **6.9** | **4.7** | **3.3** | **3.2** | **1.6** | **-0.4** | **2.2** | **4.6** |
| **Non-interest current account deficit** | **11.1** | **12.8** | **10.8** | **10.3** | **9.0** | **7.7** | **7.1** | **5.8** | **3.1** | **6.9** | **8.1** |
| Deficit in balance of goods and services | 27.3 | 30.4 | 30.5 | 29.7 | 27.7 | 26.0 | 25.2 | 19.2 | 11.2 | **27.1** | **25.2** |
| Exports | 30.7 | 36.1 | 38.4 | 40.3 | 40.9 | 41.6 | 42.6 | 32.5 | 18.9 | | |
| Imports | 58.0 | 66.4 | 68.9 | 70.0 | 68.6 | 67.6 | 67.7 | 51.7 | 30.2 | | |
| Net current transfers (negative = inflow) | -12.9 | -12.6 | -13.1 | -12.1 | -11.7 | -11.2 | -10.7 | -7.6 | -3.8 | **-13.4** | **-10.5** |
| *of which: official* | -0.8 | -1.8 | -1.6 | -0.2 | -0.2 | -0.2 | -0.2 | -0.3 | -0.2 | | |
| Other current account flows (negative = net inflow) | -3.3 | -4.9 | -6.5 | -7.3 | -7.0 | -7.1 | -7.3 | -5.8 | -4.3 | **-6.7** | **-6.5** |
| **Net FDI (negative = inflow)** | **-1.7** | **-0.4** | **-1.5** | **-1.6** | **-1.6** | **-1.8** | **-1.8** | **-2.3** | **-2.3** | **-2.3** | **-1.8** |
| **Endogenous debt dynamics 2/** | **-11.0** | **1.5** | **0.0** | **-1.8** | **-2.7** | **-2.6** | **-2.2** | **-1.9** | **-1.2** | **-2.5** | **-1.7** |
| Contribution from nominal interest rate | 0.6 | 0.6 | 1.0 | 1.2 | 0.9 | 1.0 | 1.2 | 0.5 | 0.6 | | |
| Contribution from real GDP growth | -8.6 | 0.9 | -1.0 | -3.1 | -3.6 | -3.5 | -3.4 | -2.4 | -1.8 | | |
| Contribution from price and exchange rate changes | -2.9 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Residual 3/** | **-7.6** | **-8.5** | **-5.1** | **-3.4** | **-6.7** | **-7.6** | **-7.3** | **-4.6** | **-0.4** | **-2.1** | **-6.1** |
| *of which: exceptional financing* | -0.5 | -2.0 | -2.7 | -0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| **Sustainability indicators** | | | | | | | | | | | |
| **PV of PPG external debt-to-GDP ratio** | **13.1** | **16.7** | **18.7** | **19.2** | **18.1** | **16.9** | **15.4** | **9.5** | **9.9** | | |
| **PV of PPG external debt-to-exports ratio** | **42.7** | **46.4** | **48.6** | **47.6** | **44.1** | **40.5** | **36.3** | **29.2** | **52.1** | | |
| **PPG debt service-to-exports ratio** | **3.9** | **2.9** | **3.2** | **3.9** | **3.4** | **3.1** | **3.7** | **4.6** | **11.6** | | |
| **PPG debt service-to-revenue ratio** | **3.9** | **3.3** | **4.0** | **5.0** | **4.4** | **4.0** | **4.9** | **4.6** | **6.8** | | |
| Gross external financing need (Million of U.S. dollars) | 4613.8 | 5009.7 | 5160.2 | 5483.9 | 5780.7 | 6184.2 | 6487.6 | 7763.3 | 12282.9 | | |
| **Key macroeconomic assumptions** | | | | | | | | | | | |
| Real GDP growth (in percent) | 13.9 | -1.5 | 1.5 | 4.3 | 5.0 | 5.1 | 5.1 | 5.1 | 5.1 | **3.5** | **4.1** |
| GDP deflator in US dollar terms (change in percent) | 4.1 | 5.9 | -0.9 | -0.9 | 2.6 | 2.5 | 2.3 | 1.9 | 1.9 | **2.0** | **1.9** |
| Effective interest rate (percent) 4/ | 0.9 | 0.9 | 1.4 | 1.7 | 1.3 | 1.4 | 1.7 | 1.1 | 1.7 | **1.0** | **1.4** |
| Growth of exports of G&S (US dollar terms, in percent) | 30.3 | 22.7 | 7.1 | 8.6 | 9.3 | 9.6 | 9.8 | 1.5 | 1.5 | **5.2** | **6.8** |
| Growth of imports of G&S (US dollar terms, in percent) | 33.6 | 19.6 | 4.3 | 5.0 | 5.7 | 6.1 | 7.6 | 1.5 | 1.5 | **4.8** | **5.1** |
| Grant element of new public sector borrowing (in percent) | ... | 36.4 | 36.5 | 37.8 | 37.1 | 35.5 | 35.5 | 0.0 | 0.0 | **...** | **27.0** |
| Government revenues (excluding grants, in percent of GDP) | 31.0 | 31.3 | 30.8 | 31.6 | 31.8 | 32.1 | 32.1 | 32.7 | 32.6 | **29.7** | **32.0** |
| Aid flows (in Million of US dollars) 5/ | 272.3 | 504.4 | 479.8 | 235.5 | 220.2 | 225.9 | 234.9 | 91.7 | 109.3 | | |
| Grant-equivalent financing (in percent of GDP) 6/ | ... | 4.0 | 3.4 | 1.8 | 0.9 | 0.8 | 0.7 | 0.4 | 0.2 | **...** | **1.3** |
| Grant-equivalent financing (in percent of external financing) 6/ | ... | 49.5 | 55.1 | 44.4 | 54.0 | 58.5 | 58.1 | 31.4 | 8.3 | **...** | **49.0** |
| Nominal GDP (Million of US dollars) | 13,682 | 14,271 | 14,357 | 14,833 | 15,986 | 17,215 | 18,503 | 26,106 | 51,968 | | |
| Nominal dollar GDP growth | 18.7 | 4.3 | 0.6 | 3.3 | 7.8 | 7.7 | 7.5 | 7.1 | 7.1 | **5.6** | **6.1** |
| **Memorandum items:** | | | | | | | | | | | |
| PV of external debt 7/ | 57.9 | 60.8 | 64.7 | 66.9 | 65.9 | 62.6 | 59.1 | 45.1 | 35.7 | | |
| In percent of exports | 188.7 | 168.5 | 168.5 | 165.8 | 161.0 | 150.3 | 138.9 | 138.9 | 188.6 | | |
| Total external debt service-to-exports ratio | 68.1 | 60.6 | 61.5 | 62.3 | 62.4 | 63.4 | 61.5 | 69.8 | 104.7 | | |
| PV of PPG external debt (in Million of US dollars) | 1790.5 | 2387.6 | 2680.8 | 2848.5 | 2886.4 | 2903.0 | 2857.6 | 2473.0 | 5127.6 | | |
| (PVt-PVt-1)/GDPt-1 (in percent) | | 4.4 | 2.1 | 1.2 | 0.3 | 0.1 | -0.3 | -0.2 | 0.6 | | |
| Non-interest current account deficit that stabilizes debt ratio | 20.3 | 7.4 | 6.6 | 6.8 | 11.0 | 11.9 | 11.3 | 8.8 | 3.9 | | |

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

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

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

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

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

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

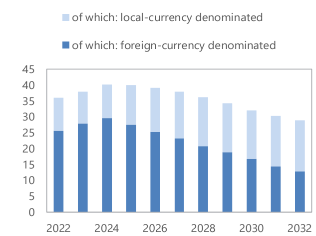
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

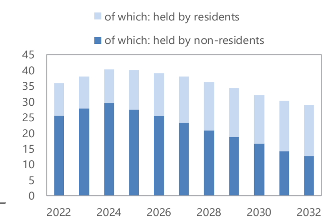
## Table 3. Moldova: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–2042
(in percent of GDP, unless otherwise indicated)

| | Actual | Projections | | | | | | | | Average 6/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2032 | 2042 | Historical | Projections |
| **Public sector debt 1/** | **33.2** | **36.0** | **37.9** | **40.3** | **40.0** | **39.1** | **38.0** | **28.8** | **23.7** | **31.0** | **35.7** |
| **of which: external debt** | **19.4** | **25.6** | **27.9** | **29.6** | **27.5** | **25.3** | **23.3** | **12.7** | **10.5** | **19.8** | **22.0** |
| Change in public sector debt | -0.5 | 2.8 | 2.0 | 2.3 | -0.2 | -1.0 | -1.1 | -1.4 | -0.4 | | |
| **Identified debt-creating flows** | **-3.1** | **2.4** | **1.9** | **2.3** | **-0.2** | **-0.3** | **-0.1** | **-0.7** | **-0.3** | **1.0** | **0.3** |
| **Primary deficit** | **1.8** | **3.3** | **4.2** | **3.4** | **2.6** | **2.3** | **2.1** | **0.9** | **0.7** | **1.2** | **2.2** |
| Revenue and grants | 32.0 | 33.0 | 32.5 | 32.0 | 32.3 | 32.6 | 32.5 | 33.0 | 32.8 | **30.8** | **32.7** |
| *of which: grants* | 1.0 | 1.6 | 1.7 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 | 0.2 | | |
| Primary (noninterest) expenditure | 33.8 | 36.3 | 36.7 | 35.4 | 35.0 | 34.8 | 34.6 | 33.9 | 33.6 | **31.9** | **34.8** |
| **Automatic debt dynamics** | **-4.9** | **-0.9** | **-2.1** | **-1.1** | **-2.8** | **-2.6** | **-2.2** | **-1.6** | **-1.1** | | |
| Contribution from interest rate/growth differential | -5.1 | -2.3 | -2.1 | -1.9 | -2.6 | -2.4 | -2.1 | -1.5 | -0.9 | | |
| *of which: contribution from average real interest rate* | -0.9 | -2.8 | -1.6 | -0.3 | -0.6 | -0.5 | -0.2 | 0.0 | 0.2 | | |
| *of which: contribution from real GDP growth* | -4.1 | 0.5 | -0.5 | -1.6 | -1.9 | -1.9 | -1.9 | -1.5 | -1.2 | | |
| Contribution from real exchange rate depreciation | 0.2 | 1.4 | 0.0 | 0.8 | -0.2 | -0.1 | -0.1 | -0.2 | -0.1 | | |
| **Other identified debt-creating flows** | **-0.1** | **0.0** | **-0.2** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.8** | **0.0** |
| Privatization receipts (negative) | -0.1 | 0.0 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Recognition of contingent liabilities (e.g., bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Other debt creating or reducing flow (please specify) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| **Residual** | **2.6** | **0.3** | **0.1** | **0.0** | **0.0** | **-0.7** | **-1.0** | **-0.7** | **0.0** | **-0.1** | **-0.7** |
| **Sustainability indicators** | | | | | | | | | | | |
| **PV of public debt-to-GDP ratio 2/** | **26.9** | **28.2** | **29.1** | **30.2** | **31.0** | **31.0** | **30.5** | **25.8** | **23.3** | | |
| **PV of public debt-to-revenue and grants ratio** | **84.1** | **85.6** | **89.8** | **94.5** | **95.8** | **95.1** | **93.6** | **78.1** | **71.0** | | |
| **Debt service-to-revenue and grants ratio 3/** | **6.7** | **4.8** | **2.1** | **5.1** | **7.5** | **11.9** | **16.3** | **22.4** | **20.8** | | |
| Gross financing need 4/ | 3.9 | 4.9 | 4.7 | 5.0 | 5.0 | 6.1 | 7.3 | 8.3 | 7.6 | | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | |
| Real GDP growth (in percent) | 13.9 | -1.5 | 1.5 | 4.3 | 5.0 | 5.1 | 5.1 | 5.1 | 5.1 | **3.5** | **4.1** |
| Average nominal interest rate on external debt (in percent) | 0.9 | 0.6 | 1.2 | 2.3 | 0.5 | 0.9 | 1.9 | 0.9 | 4.4 | **1.1** | **1.3** |
| Average real interest rate on domestic debt (in percent) | -3.2 | -11.3 | -9.9 | -3.9 | -2.7 | -1.8 | -1.4 | -0.3 | -1.3 | **0.2** | **-3.0** |
| Real exchange rate depreciation (in percent, + indicates depreciation) | 1.0 | ... | ... | ... | ... | ... | ... | ... | ... | **0.8** | **...** |
| Inflation rate (GDP deflator, in percent) | 6.3 | 15.0 | 11.0 | 5.5 | 5.5 | 5.5 | 5.5 | 5.0 | 5.0 | **5.8** | **6.6** |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 7.5 | 5.8 | 2.6 | 0.7 | 3.6 | 4.7 | 4.4 | 4.7 | 5.0 | **4.1** | **4.1** |
| Primary deficit that stabilizes the debt-to-GDP ratio 5/ | 2.3 | 0.6 | 2.3 | 1.1 | 2.8 | 3.2 | 3.2 | 2.3 | 1.1 | **1.4** | **2.6** |
| PV of contingent liabilities (not included in public sector debt) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |

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

Public sector debt 1/




Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

## Table 4. Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–2032

(in percent)

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
| | **PV of debt-to GDP ratio** | | | | | | | | | | |
| **Baseline** | 17 | 19 | 19 | 18 | 17 | 15 | 14 | 13 | 12 | 10 | 9 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2022-2032 2/ | 17 | 14 | 11 | 9 | 7 | 6 | 5 | 5 | 5 | 5 | 6 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 17 | 21 | 23 | 22 | 20 | 19 | 17 | 16 | 14 | 13 | 11 |
| B2. Primary balance | 17 | 19 | 20 | 19 | 18 | 17 | 16 | 15 | 14 | 12 | 11 |
| B3. Exports | 17 | 24 | 34 | 33 | 31 | 29 | 26 | 24 | 22 | 20 | 18 |
| B4. Other flows 3/ | 17 | 21 | 24 | 23 | 21 | 20 | 18 | 17 | 15 | 13 | 12 |
| B5. Depreciation | 17 | 24 | 17 | 15 | 14 | 13 | 11 | 10 | 10 | 8 | 8 |
| B6. Combination of B1-B5 | 17 | 24 | 25 | 24 | 23 | 21 | 19 | 17 | 16 | 14 | 13 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 17 | 22 | 24 | 23 | 23 | 22 | 21 | 20 | 19 | 17 | 16 |
| **Threshold** | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 |
| | **PV of debt-to-exports ratio** | | | | | | | | | | |
| **Baseline** | 46 | 49 | 48 | 44 | 40 | 36 | 35 | 34 | 33 | 30 | 29 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2022-2032 2/ | 46 | 37 | 28 | 21 | 17 | 13 | 12 | 13 | 14 | 15 | 18 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 46 | 49 | 48 | 44 | 40 | 36 | 35 | 34 | 33 | 30 | 29 |
| B2. Primary balance | 46 | 50 | 51 | 48 | 44 | 40 | 39 | 38 | 37 | 35 | 34 |
| B3. Exports | 46 | 71 | 113 | 106 | 99 | 90 | 87 | 84 | 81 | 76 | 73 |
| B4. Other flows 3/ | 46 | 55 | 60 | 56 | 51 | 46 | 44 | 43 | 42 | 39 | 37 |
| B5. Depreciation | 46 | 49 | 32 | 30 | 27 | 23 | 22 | 22 | 21 | 19 | 18 |
| B6. Combination of B1-B5 | 46 | 65 | 57 | 64 | 59 | 52 | 50 | 49 | 47 | 44 | 42 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 46 | 58 | 59 | 57 | 55 | 51 | 51 | 51 | 51 | 50 | 50 |
| **Threshold** | 240 | 240 | 240 | 240 | 240 | 240 | 240 | 240 | 240 | 240 | 240 |
| | **Debt service-to-exports ratio** | | | | | | | | | | |
| **Baseline** | 3 | 3 | 4 | 3 | 3 | 4 | 5 | 6 | 6 | 5 | 5 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2022-2032 2/ | 3 | 3 | 3 | 3 | 2 | 2 | 4 | 4 | 4 | 4 | 3 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 3 | 3 | 4 | 3 | 3 | 4 | 5 | 6 | 6 | 5 | 5 |
| B2. Primary balance | 3 | 3 | 4 | 4 | 3 | 4 | 5 | 6 | 6 | 6 | 5 |
| B3. Exports | 3 | 4 | 6 | 6 | 6 | 7 | 11 | 12 | 12 | 11 | 10 |
| B4. Other flows 3/ | 3 | 3 | 4 | 4 | 3 | 4 | 6 | 7 | 7 | 6 | 6 |
| B5. Depreciation | 3 | 3 | 4 | 3 | 3 | 3 | 4 | 4 | 5 | 4 | 3 |
| B6. Combination of B1-B5 | 3 | 3 | 5 | 4 | 4 | 5 | 7 | 8 | 8 | 7 | 6 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 3 | 3 | 4 | 4 | 3 | 4 | 6 | 6 | 6 | 6 | 5 |
| **Threshold** | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 |
| | **Debt service-to-revenue ratio** | | | | | | | | | | |
| **Baseline** | 3 | 4 | 5 | 4 | 4 | 5 | 6 | 7 | 7 | 6 | 5 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2022-2032 2/ | 3 | 4 | 4 | 4 | 3 | 3 | 4 | 4 | 4 | 4 | 3 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 3 | 4 | 6 | 5 | 5 | 6 | 8 | 8 | 8 | 7 | 6 |
| B2. Primary balance | 3 | 4 | 5 | 5 | 4 | 5 | 7 | 7 | 7 | 6 | 5 |
| B3. Exports | 3 | 4 | 6 | 6 | 5 | 7 | 10 | 10 | 10 | 9 | 7 |
| B4. Other flows 3/ | 3 | 4 | 5 | 5 | 4 | 6 | 8 | 8 | 8 | 7 | 5 |
| B5. Depreciation | 3 | 5 | 6 | 5 | 4 | 6 | 6 | 7 | 7 | 6 | 4 |
| B6. Combination of B1-B5 | 3 | 4 | 6 | 5 | 5 | 7 | 8 | 8 | 8 | 7 | 6 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 3 | 4 | 5 | 5 | 5 | 5 | 7 | 7 | 7 | 6 | 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 5. Moldova: Sensitivity Analysis for Key Indicators of Public Debt, 2022–2032
(in percent)

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
| | **PV of Debt-to-GDP Ratio** | | | | | | | | | | |
| **Baseline** | 28 | 29 | 30 | 31 | 31 | 30 | 30 | 29 | 27 | 27 | 26 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2022-2032 2/ | 28 | 27 | 26 | 26 | 26 | 25 | 25 | 24 | 23 | 22 | 22 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 28 | 35 | 45 | 51 | 57 | 61 | 65 | 68 | **71** | **74** | **78** |
| B2. Primary balance | 28 | 30 | 33 | 34 | 33 | 33 | 32 | 31 | 29 | 29 | 28 |
| B3. Exports | 28 | 34 | 44 | 44 | 44 | 43 | 41 | 39 | 37 | 35 | 33 |
| B4. Other flows 3/ | 28 | 32 | 35 | 36 | 36 | 35 | 34 | 32 | 31 | 30 | 28 |
| B5. Depreciation | 28 | 30 | 29 | 27 | 26 | 24 | 21 | 19 | 16 | 13 | 11 |
| B6. Combination of B1-B5 | 28 | 29 | 32 | 33 | 34 | 34 | 34 | 33 | 33 | 32 | 32 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 28 | 40 | 41 | 41 | 40 | 39 | 38 | 37 | 35 | 34 | 33 |
| **TOTAL public debt benchmark** | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 | 70 |
| | **PV of Debt-to-Revenue Ratio** | | | | | | | | | | |
| **Baseline** | 86 | 90 | 94 | 96 | 95 | 94 | 91 | 87 | 83 | 80 | 78 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2022-2032 2/ | 86 | 83 | 82 | 81 | 79 | 78 | 76 | 73 | 69 | 68 | 67 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 86 | 106 | 141 | 159 | 173 | 187 | 198 | 207 | 215 | 225 | 234 |
| B2. Primary balance | 86 | 93 | 103 | 104 | 102 | 101 | 98 | 94 | 89 | 86 | 84 |
| B3. Exports | 86 | 104 | 138 | 137 | 135 | 132 | 126 | 119 | 112 | 106 | 101 |
| B4. Other flows 3/ | 86 | 97 | 110 | 111 | 109 | 107 | 103 | 99 | 93 | 90 | 86 |
| B5. Depreciation | 86 | 93 | 89 | 85 | 79 | 72 | 65 | 57 | 48 | 41 | 34 |
| B6. Combination of B1-B5 | 86 | 91 | 100 | 104 | 105 | 105 | 104 | 102 | 99 | 97 | 96 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 86 | 124 | 128 | 127 | 124 | 121 | 117 | 113 | 107 | 104 | 101 |
| | **Debt Service-to-Revenue Ratio** | | | | | | | | | | |
| **Baseline** | 5 | 2 | 5 | 8 | 12 | 16 | 21 | 22 | 23 | 22 | 22 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2022-2032 2/ | 5 | 2 | 2 | 3 | 6 | 11 | 19 | 22 | 23 | 23 | 23 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 5 | 2 | 9 | 18 | 29 | 39 | 47 | 52 | 55 | 58 | 61 |
| B2. Primary balance | 5 | 2 | 6 | 10 | 14 | 18 | 22 | 24 | 24 | 23 | 24 |
| B3. Exports | 5 | 2 | 5 | 9 | 13 | 18 | 24 | 25 | 25 | 25 | 25 |
| B4. Other flows 3/ | 5 | 2 | 5 | 8 | 12 | 17 | 22 | 23 | 24 | 23 | 23 |
| B5. Depreciation | 5 | 3 | 6 | 6 | 11 | 15 | 20 | 21 | 20 | 19 | 19 |
| B6. Combination of B1-B5 | 5 | 2 | 6 | 9 | 14 | 19 | 24 | 26 | 26 | 26 | 27 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 5 | 2 | 17 | 17 | 22 | 23 | 26 | 27 | 26 | 25 | 25 |

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.

**Statement by Luc Dresse, Alternate Executive Director for Republic of Moldova and Veronica Volociuc, Advisor to Executive Director**
**January 9, 2023**

**The authorities wish to express their deep gratitude to the Executive Board, Management, and staff for the continued support of their efforts to both address the multiple crises currently facing Moldova and to pursue their reform and development agenda.** They highly value the constructive engagement with Mr. Atoyan, Mission Chief, Mr. Chawani, Resident Representative, and the entire team in conducting the second review of the ECF-EFF program in a grim setting caused by the severe fallout from Russia's war in Ukraine. The authorities also wish to express their appreciation to the Managing Director and the Fund team for meeting with H.E. Maia Sandu, president of the Republic of Moldova, during her recent visit to Washington DC. It provided a great opportunity to discuss the unprecedented challenges facing Moldova, in particular the worst energy crisis in its history, the authorities' efforts to overcome them, and to consider prospects for further cooperation to strengthen macroeconomic stability and mitigate the economic and social hardship caused by the war.

**Despite the challenging environment, the ECF-EFF program remains on track.** The authorities subscribe to the thrust of the staff report and remain strongly committed to the program. Its objectives continue to guide their actions towards economic recovery and strong and inclusive growth.

**<u>Unfolding on Moldova's borders, Russia's war in Ukraine continues to put strong and multiple pressures on the country, while heightened uncertainty and numerous risks are weighing on the outlook and complicating policy formulation and implementation.</u>**

**The energy security risks have materialized.** In October and November 2022 Gazprom significantly reduced gas supply below contractual provisions. The scarcity of gas also halted electricity supply in November from the MGRES power plant. This plant, located in the breakaway region of Transnistria, is dependent on gas supply from Russia and provides a substantial share of Moldova's electricity needs. Attempts to compensate for the lack of electricity by importing from Ukraine have been annihilated by targeted Russian attacks and destruction of Ukraine's electricity infrastructure. The authorities managed to make up for the shortfall in gas and electricity volumes from alternative sources, albeit at significantly higher and volatile prices. Although MGRES electricity supply resumed in December, it will not cover the entire need, which will imply higher import costs.

**Soaring energy and food prices, other war-induced shocks and lingering COVID-19 challenges continue to amplify the cost-of-living crisis, thus exacerbating poverty and social inequality, and to increase costs to business.** The economy is projected to shrink by 1.5 percent in 2022, reflecting weak agricultural growth due to unfavorable weather conditions and higher costs of fertilizer and fuel, a decline in investments stemming from rising uncertainties and costs of business, and further deterioration of private consumption owing to increased energy costs. Furthermore, the unprecedentedly high energy import costs put immense pressure on inflation, which reached its peak at 34.6 percent in October, and widened the trade deficit, pushing up the current account deficit to 15 percent of GDP. The negative shocks to growth were partially offset by higher net exports and strong remittances and external government financing. The gross foreign exchange reserves, rebuilt to above pre-war levels, provide an adequate cushion against external shocks especially during the winter months. Moreover, the banking sector remains resilient with an adequate level of capital and healthy asset quality.

**While a modest recovery is projected in the near term, the outlook for the economy remains challenging and the risks continue to be exceptionally large and tilted to the downside**. The authorities share staff's assessment that spillovers from the protracted war, further materialization of energy risks and weaker demand from Moldova's main partners could worsen the economic outlook. This would lead to additional fiscal and balance of payment pressures, lower consumption, and further output losses, making policy tradeoffs even more challenging. Moreover, further escalation of the war would lead to additional refugee inflows, putting extra pressure on the budget. Given unprecedented uncertainties and growing national security concerns, the authorities expect the adverse impact of the war on the economy to be larger than staff estimated.

**<u>The authorities remain firmly committed to the reforms under the ECF-EFF program which has played a strong catalytic role</u>**

**Despite the massive shocks and extraordinary challenges, program implementation remains strong.** All end-September indicative targets and quantitative performance criteria, alongside the inflation consultation clause, were met. Both end-September structural benchmarks (SB) aimed at enhancing the public investment management framework and developing a state ownership strategy for all state-owned enterprises (SOEs) were implemented, although the latter with some delay. The SB on strengthening the institutional autonomy of the National Bank of Moldova (NBM) was implemented as a prior action, as additional consultations were required to reach strong consensus among all stakeholders. Building on previous progress in the program and supported by IMF technical assistance, six new SBs have been added, aiming at enhancing the financial sector, tax system and fiscal consolidation, improving the effectiveness and accountability of the prosecution service and further addressing the SOEs issues.

**The program has catalyzed important financing with international partners which will help cover the urgent needs**. The ongoing crisis has significantly reduced the authorities' potential to finance long-term development plans, as public resources have been channeled predominantly to urgent social and macroeconomic priorities. The authorities are grateful to the international partners for the grants and other concessional financial support provided, which allowed the program to be fully financed for 2022 and 2023 without affecting debt sustainability. The authorities consider using the support properly and efficiently a top priority in order to tackle the multiple crises. The support envisioned for 2023 will be sufficient to cover the urgent financing needs estimated under the baseline scenario and budget parameters. However, should further downward shocks materialize, additional external financing will be required.

**<u>The authorities' response to the crisis has been robust, leveraging well-devised contingency planning and protecting the vulnerable</u>**

**The comprehensive contingency plans devised to safeguard energy security have been activated.** Supported by the EBRD EUR 300 million credit line and the recapitalization of the energy company (Energocom), the authorities managed to purchase gas from alternative sources for current consumption, and to secure reserves in storage covering consumption for three winter months. At the same time, they continued to focus on strengthening the security of the gas supply in tandem with exploring new viable supply alternatives and further leveraging the regional cooperation and the EU's energy platform. The electricity system will benefit from the synchronization with the ENTSO-E platform, which was used in 2022 to ensure electricity supply from Romania. Furthermore, the authorities will focus on improvements in energy efficiency. They launched the Energy Vulnerability Reduction Fund to protect the vulnerable from rising energy costs and support the transition of households towards more energy-efficient appliances.

**A well-targeted social support program to protect the vulnerable is rolling out.** The surging energy costs continued to be largely passed on to consumers, with natural gas quadrupling and electricity and heating rates doubling, respectively, over the past 12 months. Meanwhile, since wages and pension growth will not keep up with inflation, the erosion in real incomes will be substantial. In this context, the authorities have responded with a well-designed and targeted social support program, which provides protection to vulnerable households, without distorting price signals. The program targets about 80 percent of the population across five categories of households based on income indicators, type of heating and consumption levels.

**Going forward, the authorities' actions will focus on building resilience along with enhancing the contingency plans and pressing ahead with difficult reforms to support long-term sustainable and inclusive growth.**

**While the 2023 budget is designed to sustain critical social and macroeconomic priorities, the medium-term fiscal policies will target developmental goals**. The 2023 budget will focus on supporting measures to address the cost-of-living crisis and safeguard energy security. The envisaged deficit of 6 percent will be financed by external grants and concessional loans, domestic borrowing, and cash buffers. Going forward and subject to the crises abating, the authorities will gradually reduce the deficit to 4.6-3.4 percent of GDP in 2024-26. As such, the medium-term term fiscal actions and reforms will aim at achieving developmental goals while preserving fiscal and debt sustainability

**Towards these objectives, and as reflected in the MEFP the authorities will work on several fronts to boost domestic revenue mobilization and optimize expenditure.** On the revenue side, they will enhance tax administration and budgeting transparency. Supported by an expanded tax expenditure analysis, the authorities will (i) further identify tax relief provisions to be phased out, (ii) progress with a consolidation of the tax administration via countering domestic and international abusive tax practices by introducing a General Anti-Avoidance Rule and improving the tax filling compliance system, and (iii) step up with customs reforms to enhance the anti-smuggling capacities. Furthermore, they plan to institutionalize spending reviews, strengthen the e-procurement system, enhance the fiscal risk statement by broadening the coverage comprising SOEs contingent liabilities, and improve the debt management framework to deepen the debt market and facilitate domestic financing. On the spending side, the authorities will strengthen planning, allocation, and implementation steps of the PIM cycle in line with the 2019 PIMA recommendations and enhance social assistance programs.

**Stepping up efforts in reducing the weaknesses of the SOE sector will remain a priority for the authorities to minimize fiscal risks and improve their efficiency.** Building on the progress achieved under the program, including under the 2022 state-ownership strategy, the authorities' next steps to enhance the SOE sector will envisage the completion of a triage of SOEs owned by the central government alongside the development of a legal framework to enhance SOEs governance and audit. These efforts will improve the SOEs efficiency and contain fiscal risks.

**The NBM started a cautious monetary easing.** The NBM's proactive and aggressive action to hike the policy rate and increase reserve requirements has paid off and helped to contain second round effects, anchor inflation expectations and slow down consumer credit. Given the downward trajectory of inflation (annual inflation decelerated to 31.4 percent in November compared to 34.6 in October), the NBM started to loosen its monetary policy in December, when they cut the interest rate by 150 basis points to 20 percent. However, given the uncertain environment the NBM will stay vigilant and ready to adjust the pace of monetary policy normalization in case of lingering high inflation. The NBM will continue to monitor the market developments and will allow necessary exchange rate adjustment, while limiting interventions to counteract excessive rate volatility.

**The authorities will aim at buttressing the resilience of the financial sector.** The NBM is preparing a review of the Bank Recovery and Resolution Law with the view to enhancing the resolution preparedness and actions, generating access to the resolution fund and enhancing the financial stability capacity to better monitor systemic risks. The authorities have also intensified the preparation for the transfer of regulatory and supervisory responsibilities for oversight of the non-bank financial sector from the NCFM to the NBM effective July 1, 2023, for which they developed a comprehensive road map. Moreover, their efforts in modernizing the financial market infrastructure will facilitate cashless payments and contribute to improving financial inclusion. The authorities also remain committed to further shield the financial sector from illicit financial flows, for which they will continue to enhance the AML/CFT framework, particularly in line with the 2019 MONEYVAL findings.

**Enhancing the rule of law and the anti-corruption framework remains central for the authorities to reinforce long-term growth**. As a part of this process, they will continue to fortify the capacity and independence, including financial, of key anti-corruption institutions to tackle high level corruption, as well as improve the effectiveness of the asset declaration regime.

## Concluding remarks

**Considering the above and given the strong performance under the program, the authorities request the completion of the second review of the ECF-EFF program.** They also request a modification in the Technical Memorandum of Understanding, pertaining to the definition of the continuous ceiling on accumulation of external payments arrears, to exclude external payment obligations for which the creditor (Russia) has requested an extension of payment deferral or payments be made into an escrow account due to the risks of repayment-blocking by correspondent banks.

**Despite the challenging landscape, the authorities remain fully committed to program implementation**. In tandem with continued external financial support, the authorities believe that the solid policies and actions outlined in the MEFP will be beneficial to address the ongoing external shocks, sustain the economic recovery and pursue structural and developmental reforms for strong and inclusive growth. They will continue to rely on IMF support for policy advice which will be formulated within Moldova’s EU integration process, reflected also in the recently approved people-centered National Development Strategy “European Moldova 2030”. The authorities will continue to leverage IMF capacity development in key macroeconomic policy and structural areas.