GUVERNUL
REPUBLICII MOLDOVA

GOVERNMENT
OF THE REPUBLIC OF MOLDOVA

Nr. 01-79-12168

Chişinău, November 20, 2023

Letter of Intent

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

Dear Ms. Georgieva:

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

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

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

Casa Guvernului,
MD-2033, Chişinău,
Republica Moldova

Telefon/Phone:
+ 373 22 250 101

Fax/Fax:
+ 373 22242 696

Government House,
MD-2033, Chisinau,
Republic of Moldova

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

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

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

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

Sincerely yours,

Dorin RECEAN
Prime Minister

Petru ROTARU
Minister of Finance

Octavian ARMAȘU
Governor National Bank of Moldova

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

Appendix I. Letter of Intent

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

November 20, 2023
Chişinău, Moldova

Dear Ms. Georgieva:

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

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

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

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

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

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

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

Sincerely yours,

/s/

Dorin Recean
Prime Minister

/s/

Petru Rotaru
Minister of Finance

/s/

Octavian Armașu
Governor
National Bank of Moldova

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

Attachment I. Memorandum of Economic and Financial Policies

I. Macroeconomic Developments and Outlook

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

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

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

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

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

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

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

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

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

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

II. Program Developments

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

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

III. Policy Framework

A. Fiscal Policy

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

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

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

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

Reforms to Strengthen Revenue Mobilization

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

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

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

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

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

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

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

Reforms to Improve Budget Quality and Fiscal Transparency

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Monetary Policy

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

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

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

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

C. Financial Sector Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. State Owned Enterprises and Energy Sector Reforms

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

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

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

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

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

Natural Gas

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

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

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

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

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

Electricity

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

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

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

E. Rule of Law and Anti-Corruption

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

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

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

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

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

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

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

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

F. Building Climate Resilience

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

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

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

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

- By the second review, we will:

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

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

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

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

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

  - By the third review, we will:

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

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

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

  - By the first review, we will:

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

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

  - By the fourth review, we will:

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

G. Economic Statistics

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

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

H. Program Monitoring

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

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

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

1/ Indicative targets for March 2023, September 2023, March 2024, and September 2024.
2/ The NIR target is set as specified in the TMU.
3/ Includes Energy Vulnerability Reduction Fund (EVRF), heating allowance, payments under Ajutor Social and unemployment insurance programs.
spending.
spending.
5/ In line with TMU ¶22.

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

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

Table 3. Moldova: RSF Reform Measures

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

Source: IMF Staff

Attachment II. Technical Memorandum of Understanding

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

A. Quantitative Program Targets

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

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

Indicative targets are set on:

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

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

B. Program Assumptions

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

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

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

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

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

C. Institutional Definitions

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

D. Program Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

E. Inflation Consultation Mechanism

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

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

Inflation Consultation Bands

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

F. Adjusters

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

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

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

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

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

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

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

G. Reporting Requirements

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

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

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

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

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

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

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