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REPUBLIC OF MOLDOVA

May 2017

FIRST REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE AND STAFF REPORT

In the context of the First Reviews for an Extended Arrangement under the Extended Fund Facility and an Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on February 28, 2017, with the officials of the Republic of Moldova on economic developments and policies underpinning the IMF arrangements under the Extended Credit Facility and the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on April 13, 2017.

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

Letter of Intent sent to the IMF by the authorities of the Republic of Moldova*
Supplementary Memorandum of Economic and Financial Policies by the authorities of the Republic of Moldova*
Technical Memorandum of Understanding*
Economic Development Document
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

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May 1, 2017

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IMF Executive Board Completes the First Reviews under the Extended Credit Facility and Extended Fund Facility Arrangements for the Republic of Moldova

- Program is on track, growth has returned, and the authorities remain committed to sound economic management
- Efforts to rehabilitate the financial system continue and structural reforms are advancing
- Monetary policy is focused on price stability alongside a flexible exchange rate regime; and fiscal policy on sustainability and providing space for priority spending

On April 28, 2017, the Executive Board of the International Monetary Fund (IMF) completed the First Reviews under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) Arrangements for the Republic of Moldova on a lapse-of-time basis.[1] The ECF/EFF arrangements in a total amount of SDR 129.4 million (about US$178.7 million, or 75 percent of the Republic of Moldova's quota) was approved on November 7, 2016 (see Press Release No 16/491 for details). Completion of the review makes available SDR 15.7 million (about US$ 21.5 million).

The program is broadly on track, enjoys strong country ownership, and is supported by the firm commitment of policymakers to sound economic management. The authorities continue to make significant progress in tackling long-standing vulnerabilities in the financial sector and advancing structural reforms. These efforts have helped to strengthen financial stability, and growth has returned. The economy is projected to grow by 4.5 percent in 2017, higher than previously expected. Looking forward, continued steadfast program implementation will be vital.

In the financial sector, diagnostics of the largest banks are being completed, and progress has been made in strengthening bank governance and improving shareholder transparency. Continuing efforts to strengthen the governance and financial condition of banks, and enhancing regulatory and supervisory frameworks, are critical for long-term growth and development.

[1] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

Monetary policy continues to focus on maintaining price stability in the context of a flexible exchange rate regime. To this end, the National Bank of Moldova (NBM) is making efforts to improve its inflation targeting framework by further strengthening operational procedures, forecasting abilities, and policy communications. The NBM should stand ready to tighten monetary policy if inflation rises more quickly than projected.

The 2017 budget and the medium-term budget framework are consistent with program targets. Priority actions this year include strengthening revenues, and improving the efficiency and prioritization of spending. Resources made available from these efforts should be directed toward capital expenditure and targeted social assistance. In addition, fiscal structural reforms would further strengthen fiscal management over the medium term.

The authorities continue to work on eliminating accumulated debts in the energy sector and improving tariff-setting methodology to ensure transparency and cost-recovery.

The authorities are currently assessing their poverty reduction strategy with the objective of updating it and aligning it with the UN Sustainable Development Goals.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

April 13, 2017

FIRST REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

- **Recent Developments**. Following the political and economic turmoil of recent years, the Moldovan economy has started to recover. Economic growth in 2016 was stronger than originally projected benefiting from solid agricultural performance and better-than-expected exports; and the outlook for 2017 has been marked up. Inflation decelerated sharply from the high levels of 2015, but has returned to the target range.

- **Program Performance**. The authorities remain firmly committed to program objectives, although risks remain large. Fiscal performance, monetary policy, and external sector developments were broadly in line with program expectations. All end-December performance criteria were met, as well as most structural benchmarks, although some with delay.

- **Policy Recommendations**. The program remains focused on financial sector issues, along with efforts to improve transparency in the energy sector, actions which are vital to sustain growth, job creation, and poverty reduction. Determined and sustained actions to restructure the financial system should include identification of ultimate beneficial owners of banks and related exposures, enhanced regulatory and supervisory frameworks, and firm enforcement actions.

- **First Review**. On the basis of recent performance, including the completion of prior actions and the authorities' commitments, staff supports the completion of this review, which would make available to the Moldovan authorities the equivalent of SDR 15.7 million.

Approved By
Thanos Arvanitis and Mark Flanagan

Discussions were held in Chişinău during February 14–28, 2017. The mission met with Prime Minister Filip, Deputy Prime Minister Calmîc, Minister of Finance Armaşu, Governor of the National Bank of Moldova Cioclea, and other senior officials and representatives of financial institutions, labor unions, diplomatic community, and international organizations. The mission team comprised Ben Kelmanson, Vassili Prokopenko, Koralai Kirabaeva, Armine Khachatryan (Res. Rep.) (all EUR), Dominique Fayad (SPR), Emmanouil Kitsios (FAD), Edda Rós Karlsdóttir (MCM). Ivanna Vladkova-Hollar (outgoing chief) participated in some of the discussions, as did Anthony De Lannoy and Veronica Volociuc (OED). Alaina Rhee and Christine Rubio (both EUR), and staff from the local office in Chişinău assisted the mission.

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APPENDIX

RECENT DEVELOPMENTS

1. **Following a year of political turbulence, the economy has started to recover**. In 2016 the economy expanded by 4.1 percent, led by a strong rebound in agriculture and related industries, private consumption and exports in the second half of the year. Public consumption and investment declined as tighter financing constrained government spending. Macro-financial linkages remain weak, with productive sectors of the economy mostly disconnected from banking credit. Unemployment remains low (4.2 percent in 2016), reflecting low and declining labor force participation and increasing labor migration.

2. **Inflation decelerated sharply** to 2.4 percent (yoy) at end-2016 (from 13.5 percent at end-2015). Delayed adjustments of utility tariffs and lower fuel prices contributed the most to the deviation from inflation projections. The low inflation outturn was also supported by the currency stabilization after its sharp depreciation in 2015 and a high base effect in the second half of 2016. Both headline and core inflation picked up in the first quarter of 2017 to 5.1 percent and 4.6 percent, respectively.

3. **Financial stability has been preserved, though challenges remain acute**. Deposits increased by about 10 percent in 2016 and banks are highly liquid. Credit growth, however, remains negative. Reported nonperforming loans (NPLs) continue to increase, partly reflecting the reclassification of loans identified in recent special audits and onsite supervisory inspections in the three largest banks.

4. **The fiscal outturn for 2016 was well within program targets**. The augmented cash deficit was 2.1 percent of GDP, or 1.4 percentage points better than the authorities' budget and staff projections (text table). This was largely due to the under-execution of spending, caused by external financing uncertainty and the disbursement of grants very late in the year. The under-execution of spending was broad based and included capital expenditure, spending on goods and services, and other current expenditure categories.

General Government, December 2016

(Cumulative from the beginning of calendar year; millions of Moldovan lei)

	2016	
	Program	Prelim.
1. Quantitative performance criteria		
Ceiling on the *augmented* cash deficit of the general government	4,668	2,827
Of which: on-lending agreements with external creditors to state-owned enterprises	396	340
2. Indicative targets		
Ceiling on the stock of accumulated domestic government arrears	466	101
Ceiling on the general government wage bill	11,323	10,967
Floor on priority social spending of the general government	16,182	16,012

Source: Ministry of Finance; and IMF staff calculations.

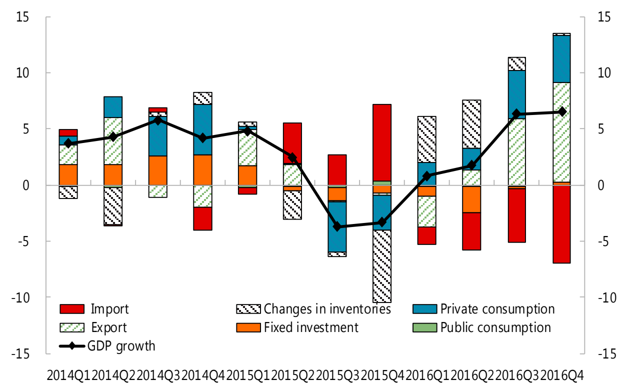
5. **The current account deficit continued to narrow**. In 2016, exports of goods and services increased by 5.3 percent (y/y), and exports of agricultural products rose by 3.4 percent (y/y). At the same time, imports of goods and services increased modestly by 0.8 percent (y/y). Remittances have continued to contract since 2013, but at a slower pace. Over 2016, the exchange rate remained

broadly stable and gross international reserves increased by US$449.1 million to US$2.2 billion, reaching 5.2 months of prospective imports and 137.9 percent of ARA metric.

OUTLOOK AND RISKS

6. The macroeconomic framework has been updated to reflect recent developments and prospects. (Tables 1–4).

Contribution to GDP Growth - Demand



Sources: Moldovan authorities; and IMF staff calculations.

- **Growth** prospects for 2017 have been marked up to 4.5 percent (from 3.0 percent at the time of program approval), in light of the stronger carryover from 2016, and a more favorable external environment. In subsequent years, growth is expected to be supported by recovery of investment and more favorable external conditions, with more limited contribution from agriculture. Repairing financial intermediation remains critical to promote credit to productive sectors of the economy. Over the medium term, the economy is projected to grow close to the potential rate of 3.9 percent.

- **Inflation** is expected to remain in the target range in the first half of 2017 as domestic demand continues to strengthen. Planned adjustments of administered prices, higher international food and oil prices, low base effect, and strong domestic and external demand are expected to bring inflation to 6.5 percent by year-end (5.9 percent on average).

- **The current account** deficit is expected to widen somewhat to 5 percent of GDP in 2017, notwithstanding the strong rebound in exports as imports have started to increase driven by the recovery in domestic consumption. Remittances should pick up by 5.8 percent (y/y) driven in part by Russia's stronger performance. The external outlook is expected to strengthen with an anticipated improvement in trade, including with Russia, in the medium term, with the current account deficit stabilizing around its norm at 5.5 percent of GDP

- **Gross international reserves** are expected to increase by US$200 million to US$2.4 billion (5.5 months of prospective imports, 143.8 percent of ARA metric) by end-2017.

7. Risks to the outlook remain large, as articulated at the time of program approval (see the Risk Assessment Matrix, Annex). Reform momentum could be dampened if political divisions start to erode program ownership, and/or if vested interests impede reforms, particularly in the financial sector. Risks to the macro baseline stem mainly from the risk of rising populism. On the other hand, recovery in Russia would positively affect some exports and remittances.

PROGRAM POLICY DISCUSSIONS

8. Discussions focused on: (A) policies to strengthen the financial sector; (B) monetary and exchange rate policies; (C) fiscal policy; and (D) structural policies, including the transparency and financial viability of the energy sector, and other policies to support growth and poverty reduction.

A. Financial Sector

Background

9. The authorities continue to press ahead with the agenda to clean the system but complex policy challenges, vested interests, and constrained capacity contribute to slower-than-expected progress in some areas.

- **Diagnostics of the three largest banks are nearing completion**. The National Bank of Moldova (NBM) has conducted full scope onsite inspections of two large banks. The inspections included a review of the status of implementation of remedial action plans, which were ordered by NBM in July 2016 following special audits of these banks. The findings of the inspections were mixed, with implementation lacking in one bank, including on collecting information on shareholders. Banks were given three months to adapt to the new regulation governing the definition of related parties (which also held the new criteria for identification). Given this, while they revealed some unreported connected lending, the inspections did not identify any unreported related-party exposures. The third bank, currently under NBM temporary administration (early intervention regime), underwent an external assessment of assets, liabilities, and equity, as provided for in the law.

- **While full shareholder transparency has been difficult to achieve to date, the authorities have made some progress in strengthening bank governance**. Identification of UBOs of the three largest banks has been challenging (with the December structural benchmark not met). There are a variety of reasons for this, including non-cooperation on the part of shareholders in one bank and the complexity of financial structures and cross-jurisdictional data issues. In the two largest banks NBM has cancelled and blocked 43 and 63 percent of shares respectively, because shareholders had acquired the shares without supervisory approval (see Box 2 in IMF Country Report No. 16/343 for past action).

Policies

10. The overall financial sector strategy remains unchanged, but reflecting the challenges and constraints noted above, the authorities have added important actions and adjusted the timeline in some areas. Decisive efforts to implement these reforms will be essential to allow Moldova to continue to strengthen the governance and financial conditions of its banks. In particular:

i. **Capacity and efforts to identify UBOs and related parties are being further enhanced**. Rapid and comprehensive progress is vital to clean the system and to support effective contingency planning. Strong scrutiny of incoming shareholders, directors and managers will also be crucial. To this end, the authorities agreed to:

   a. Finalize the identification of the UBOs of all qualified shareholders (≥1 percent) in the three largest banks and, if not identified, to take appropriate supervisory actions (SMEFP ¶4a, **prior action**). The NBM has imposed financial penalties and issued a warning that shares will be blocked if the UBO cannot be certified as fit-and-proper. Identification of UBOs in second and third tier banks will be finalized by end-June and end-August respectively (SMEFP ¶4c, modified **structural benchmarks**).

   b. Expand NBM's internal database for bank claims to capture relevant characteristics for identifying exposures to related parties (SMEFP ¶4g, **structural benchmark**, end-June 2017); and ensure that the identity of cancelled shareholders, and any relevant relationships, is preserved in NBM's supervisory records.

   c. Require affidavits from incoming shareholders and managers as part of their fit-and-proper tests, as of end-April.

ii. **Targeted and full onsite inspections will apply new procedures to inspect and investigate related exposures**. The NBM has adopted new procedures to support the application of newly acquired explicit legal powers to presume any person as a bank's related party on the basis of objective criteria, unless the bank is able to prove otherwise (SMEFP¶4g, **prior action**) (see ¶11 in IMF Country Report No. 16/343 for past action). The authorities will conduct targeted reviews of related-party exposures in the three largest banks, assisted by international reputable experts/companies (SMEFP ¶4h, **structural benchmark**, end-August 2017). To recognize any residual risk to capital and ensure appropriate discipline, the authorities agreed to formally determine the presumed related parties and exposures, in line with current legislation. Full-scope onsite inspections of smaller banks that are not part of foreign banking groups, will be conducted applying the above procedures by end-December 2017 (SMEFP ¶4i, **structural benchmark**). Onsite inspections in the remaining banks that are part of foreign banking groups will be conducted by end-March 2018.

iii. **Banking regulations are being enforced**. Based on the findings of onsite inspections in two banks and the external assessment of assets, liabilities, and equity of the bank under temporary administration, NBM will complete a capital assessment of these banks, and take appropriate enforcement and corrective supervisory actions for breaches of banking regulations, including AML/CFT, by end-April and end-June 2017, respectively (SMEFP ¶4e, **structural benchmarks**). Intensive supervision will continue in two banks until they have: (i) fully implemented their remedial action plans of 2016; (ii) adopted plans to unwind above-limit large and related-party exposures; and (iii) their blocked shares or shares issued to replace cancelled shares are disposed of.

iv. **The authorities have adopted a strategy to allow a large bank to exit temporary administration by end-July 2017** (SMEFP ¶4f, **prior action**).

11. Regulatory and supervisory frameworks are being enhanced:

a. The NBM has prepared a strategy for addressing remaining deficiencies identified in the BCP assessment of the 2014 FSAP, meeting an end-December 2016 **structural benchmark**. New regulations have been submitted for public consultation on large exposures, internal governance and risk management, external audits and fit-and-proper tests and certification of bank administrators. The fit-and-proper regulation enhances NBM's powers to enforce banks' good governance, including by: (i) requiring banks to conduct a fit-and-proper assessment prior to submitting the application to the NBM; (ii) providing the power to reassess the bank's managers if required; and, to facilitate independent opinions and critical challenge, (iii) requiring diversity in the composition of future members of the Board and executive body.

b. The authorities have reviewed the legal and regulatory provisions pertaining to the NBM's actions against concerted shareholders. Consequently, parliamentary approval (SMEFP ¶4k, **structural benchmark, end-April 2017**) is being sought for a bill of law that aims to: (i) mitigate legal risk for banks and other stakeholders; (ii) prevent decapitalization of banks below prudential norms; and (iii) increase the likelihood of private sector solutions by allowing for more time and price flexibility in the process for sale of blocked shares and shares issued to replace cancelled shares.

c. To address the legal loopholes, parliamentary approval (SMEFP ¶4l, **prior action**) is being sought for a bill of law with the objective to ensure that cancelled shareholders are not treated more favorably than remaining shareholders in resolution: legislation will seek to ensure that deposits of affiliates that are not significant shareholders, members of decision-making bodies, and their affiliates, can be paid out or transferred to a good bank in resolution.

12. The safety, efficiency and soundness of the securities settlement and registry infrastructure is being improved. This is a critical part of shareholder transparency and protection of shareholders' rights. To this end, the authorities:

a. Are seeking Parliamentary approval (SMEFP ¶4m, **prior action**) for a bill of law that aligns relevant laws with the Law on Central Security Depository (CSD).

b. In preparation for transferring information from the 11 private registrars to the CSD, the National Commission for Financial Markets (NCFM), in consultation with the NBM, plans to adopt by end-May 2017 a comprehensive methodology and procedures for verification of the integrity of legal records of shareholders, including through a public awareness campaign to facilitate owners of fraudulently seized shares to come forward (SMEFP ¶4m, **structural benchmark**). Consequently, the legal records of shareholders in all banks and insurance companies will be verified in line with the new procedures by end-2017 (SMEFP ¶4m, **structural benchmark, December 2017**). An action plan has been adopted to make the CSD operational by March 2018.

B. Monetary Policy

Background

13. Monetary policy has been broadly in line with program targets. Inflation decelerated quickly to 2.4 percent (yoy) at end-2016 (from 13.5 percent in 2015)—and while it fell just outside of the inner consultation band, this was largely driven by supply-side factors and has reversed in the first quarter of 2017. The end-December 2016 NIR PC, and end-March indicative target, under the program were met.

14. Challenges however remain as the monetary transmission mechanism has been weakened, and there is excess liquidity. The signaling role of the NBM's policy rate has been hampered by the ongoing bank restructuring. Despite a reduction in NBM's policy rate by 10.5 percentage points during 2016 (from 19.5 percent to 9 percent), average bank lending rates have declined by only 4 percentage points. As a result, credit to the economy continued to stagnate while banks preferred to accumulate excess liquidity. Liquid assets of banks have increased to over 49 percent of total assets at end-2016 (from 42 percent at end-2015), well above the prudential minimum of 20 percent. Liquidity management is further complicated by weak coordination between NBM and Ministry of Finance.

Policies

15. The NBM remains committed to maintaining inflation within the target band, and not to resist exchange rate movements driven by fundamentals. While end-year inflation narrowly undershot the inner band of the consultation clause, inflation is expected to pick up, although still remain within the NBM's targets. The updated inflation forecast reflects significant supply-side factors, notably past delays in the planned adjustment of regulated utility tariffs, an increase in excise tax rates, higher international food and oil prices, and a low base effect in addition to strengthened external demand. In light of the significant supply-side factors that have emerged since program approval, staff and the NBM updated the quarterly path of the inflation consultation clause. NBM's interventions in the foreign exchange market will be aimed only at smoothing excess volatility. The NIR targets set under the program are consistent with this commitment.

16. The authorities stand ready to pursue a tighter stance should inflation start rising faster than projected. With inflation forecast to pick up through 2017, NBM stands ready to consider using the full range of policy tools at its disposal, including increasing the base rate, modifying the reserve requirement ratios, and outright sales of or reverse repo transactions with government securities on its balance sheet.

17. The authorities are seeking to improve liquidity management. Liquidity management will be supported by efforts to improve cooperation and information sharing between NBM, treasury, and debt management office, as well as measures to develop the secondary market for government securities and interbank money market in line with the past MCM TA advice (SMEFP ¶6)**.** The recently agreed cash buffer will also play a supportive role in absorbing structural excess liquidity (SMEFP ¶5).

18. The effectiveness of NBM's inflation targeting framework is conditional upon its institutional and policy independence, which requires, *inter alia*, a viable balance sheet. To this end, the authorities' intention not to amend the law regulating the securitization of emergency loans extended by NBM to now failed banks is welcome. Once the NBM's statutory capital level reaches 10 percent of monetary liabilities, NBM profit transfers to government will be used to repurchase these securities, starting with the longer maturity tranches, allowing for a reduction in domestic public debt.

C. Fiscal Policy

Background

19. The 2016 budget outturn was well within program limits, but demands on spending are high. The strong performance was largely due to the under-execution of spending which resulted from external financing constraints until very late in the year. The government wage bill remained below the program ceilings, and progress on reducing the stock of domestic arrears was better than programmed. Priority social spending was slightly below the indicative floor (by about 0.1 percent of GDP), mainly due to circumstantial reasons (e.g., non-eligible benefits refunds). Revenue under-execution due to lower grants was offset by higher-than-expected revenues from excises and trade taxes. The risk of debt distress remains low, with PPG debt to GDP standing at 43.3 percent and debt service to exports at 23.7 percent.

20. Pensions have been reformed to make the system more equitable, sustainable and transparent. The reform sought to improve replacement rates and enhance sustainability of the pension system (e.g., by gradually increasing the retirement age of men/women to 63/63 years of age and lowering the accrual rate). The authorities estimate that the net effect on the general government deficit will be limited as the increase in the public sector wage bill, associated with increased contributions for military and state security-related staff, will be substantially offset by higher social security receipts. While overall supportive of the pension reform that was carried out in consultation with the World Bank, a comprehensive estimate of the overall fiscal impact has not yet been completed.

Policies

21. The authorities remain committed to maintaining fiscal discipline and strengthening fiscal sustainability in a balanced and growth-friendly manner, providing space for priority social and capital expenditure.

i. **The 2017 budget targets an augmented general government deficit of 3.7 percent of GDP, in line with program commitments** (SMEFP, ¶10). The 2017 budget stipulates tax measures totaling about 0.4 percent of GDP, arising mainly from higher excise duty rates, real estate tax rates, and removal of VAT exemptions. Expenditure plans are in line with program commitments, although the indicative target on the government wage bill is being increased by 537 million lei to accommodate the pension reform law approved in December 2016, which brings the entire public sector under the general contribution rules. Priority social spending plans remain in line with the level envisaged at the time of program approval, and is protected through a floor in the program. The deficit path is modified slightly in light of revised quarterly revenue and expenditure forecasts, but is unchanged for the year overall.

   To ensure prudent budget management in year, the authorities have committed to save, rather than spend, any revenue over-performance early in the year. This will be reviewed at the time of the next program review, in the context of the mid-year budget review, with any decisions on spending additional revenues carefully assessed depending on the permanency of revenues, and based on thorough cost benefit analysis (SMEFP ¶10).

ii. **The medium-term budget framework for 2017–19 is consistent with program objectives**, and is based on:

   a. **Expanding the tax base, and improving revenue administration and efficiency to ensure sustainable public finances**. The authorities are taking multidimensional actions aimed at broadening the tax base, reducing the shadow economy, and advancing tax administration reforms and tax compliance in 2017 (SMEFP ¶11). The unification of the tax administration into a single body should enhance the efficiency of the tax authorities and help focus on improving compliance-based tax administration and enhancing the performance of the large taxpayers' office (LTO) and the high wealth individuals (HWI) program. Moving forward, the authorities will continue to review and rationalize various exemptions and/or reduced rates on VAT, excises, CIT, PIT, and property taxes, as well as develop plans to address the shadow economy. These efforts should also help to gradually reduce reliance on external grants.

   b. **Public administration reform to improve expenditure efficiency and rationalization**. The authorities have established a Center for Reforms that will develop an action plan in the fall of 2017 to implement the public administration reform in the 2018 budget. A 2016 public expenditure rationalization technical assistance mission identified reform options that could generate savings of about 2 percent of GDP by 2019, while improving efficiency and equity from reforms in the public sector wage bill, education, health and social assistance sectors. Specific proposals will be discussed in the context of future program reviews.

   c. **Improving the efficiency of social spending**. The authorities aim to strengthen the social safety net by expanding means-tested programs (Ajutor Social and heating allowance), and streamline untargeted programs to reduce administrative costs and avoid benefits overlap in line with past technical assistance. On education, the authorities plan to rationalize the school distribution network to better address current demographics needs. The authorities are examining reforms in the health sector to provide cost-effective service delivery in the hospital sector. Previous technical assistance estimated that fiscal savings from reforms in the education and health sectors could reach up to 1.2 and 0.4 percent of GDP respectively by 2019, while the strengthening of Ajutor Social and heating allowance would improve the efficiency and equity of social assistance by raising the take-up ratio of these targeted programs.

iii. **Fiscal structural reforms should aim to further strengthen the fiscal institutional framework (SMEFP ¶10):**

a. **Progress is being made to reduce domestic arrears, but remains challenging beyond central government**. The overall level of arrears was reduced by more than programed in 2016. While central government arrears were contained, local governments arrears increased by a small margin. Given the lack of central government control over local authority arrears, the TMU definition of arrears will be revised to exclude such arrears. Nevertheless, the authorities aim to develop an action plan to further limit fiscal risks arising from arrears, particularly those due to local governments. They aim to eliminate the central government arrears by end-2017 and will seek Fund TA to improve public financial management in this area.

b. **Measures will also be taken to improve cash and debt management**. The authorities intend to create a cash buffer up to the value of MDL 2 billion to improve budget liquidity management, reduce the risk of debt refinancing, and support NBM efforts in absorbing structural excess liquidity. Staff underscored the importance of maintaining prudent cash and debt management to prevent fiscal slippages. The MOF and NBM will consult on the design the implementation of the MOF’s cash buffer.

c. **To reduce fiscal risks related to SOEs, the authorities aim to prepare annual fiscal risk statements from 2018**. The authorities plan to enhance budget transparency and their fiscal risk monitoring and management by strengthening information collection and risk quantification in the SOE sector. Developing a Fiscal Risk Statement (FRS), for which they will require Fund technical assistance with the annual budget, will help the authorities improve oversight and governance of SOEs, and hence mitigate risk.

D. Structural Policies

Utilities

22. Resolving the large debt accumulated by energy companies and improving utility tariff-setting mechanism are essential to restore financial viability of the sector and to contain fiscal risks.

i. **The heating tariff is close to the current operating cost-recovery level, but it is not sufficient to ensure recovery of investments nor to address the stock of accumulated debt**. The authorities (with support from the WB) have prepared an action plan to improve the tariff-setting methodologies and regulations in the heating sector (SMEFP ¶13). In line with the agreement reached by the regulator (ANRE) and the World Bank on heat losses, depreciation and asset valuation, the district heating tariff was increased by 5.1 percent. The operator's requested increase was 6 percent, the difference reflecting assumptions of higher assumed heat sales volumes and lower natural gas prices. The negotiations on restructuring the debt of Termoelectrica (heating and power-generating company) to Moldovagaz (the supplier of natural gas, majority owned by Gazprom) of around US$140 million are ongoing and are expected to be finalized later this year. Resolving arrears to Moldovagaz is a first step towards resolving debt to Gazprom debt, estimated to be around US$745 million from Moldova (excluding Transnistria) and US$5.8 billion from the Transnistrian region.

ii. **Electricity tariffs are broadly at cost-recovery levels, but the historical debt still needs to be addressed**. The electricity tariff was increased by 3.6 percent, introducing the first tariff supplement (as a part of the gradual repayment of accumulated financial deviations to electricity distribution companies, SMEFP ¶13), and reflecting the lower price of imported electricity, and stronger exchange rate and lower inflation projections. The underlying assumptions regarding lower allowed levels of energy losses and lower investment allocation are contested by some of the electricity distribution companies. ANRE should work closely with the Energy Community Secretariat to improve transparency and to minimize regulatory discretion in the tariff-setting process.

iii. **The authorities are working on improving the regulatory framework in the energy sector, in close cooperation with the Energy Community Secretariat** (SMEFP ¶13). The new Energy Law, expected to be adopted by June 2017, envisages aligning methodologies and procedures with EU directives and regulations, aimed at unbundling energy suppliers from network operators and strengthening the regulatory independence.

Governance and the Business Environment

23. Weak governance and corruption are long-standing bottlenecks to economic development. The specific areas that undermine private sector development and investment include regulatory uncertainty, the inspection framework, a permissive documents system, weak customs administration, corruption in the judiciary, as well as limited access to finance. While many plans and strategies have been adopted, the main challenge is in implementation. The authorities are working on implementing reforms that ensure the independence, transparency and accountability of the judiciary and of anticorruption institutions (SMEFP ¶14).

24. Investigation into the bank fraud of 2014 is ready to move into a recovery phase. At the authorities' request, a consortium of international companies has been carrying out a forensic audit of the embezzlement of funds from three large banks that collapsed in 2014. The relatively long duration of audit, which started in late 2015, reflects the complex and sophisticated nature of the fraudulent schemes that involved a very large number of transactions with hundreds of entities from multiple jurisdictions. The authorities have collected 65 million lei to date, and aim to recover some 700 million lei (0.5 percent of GDP) in 2017, from the assets of the three banks and from selling the confiscated items of the sentenced individuals. An action plan to recover some of the stolen assets is expected to be ready by end-April 2017. These efforts should also help prevent those found responsible for the bank fraud from holding administrative or ownership roles in banks in future.

Poverty Reduction

25. While Moldova has made significant progress towards the MDGs, it remains the poorest country in Europe. The poverty ratio declined significantly to 11.4 percent in 2014 (from 29 percent in 2005), while the extreme poverty ratio (at US$1.90 a day, 2011 PPP) has been almost eliminated, reaching 0.08 percent in 2013 (from 14 percent in 2005). Nevertheless, the country's income per capita of US$2,220 in 2015 is less than half the average income per capita in the CIS region of US$5,079. The authorities are in the process of undertaking an assessment of the "Moldova 2020" National Development Strategy, with the objective of updating it and aligning it with the UN Sustainable Development Goals (SMEFP ¶12).

26. The recently adopted Economic Development Document recognizes the importance of improving productivity, attracting investment, and promoting human development for achieving sustainable and inclusive growth. The document specifies priority areas to promote growth and reduce poverty (education, business climate, energy consumption and efficiency, agriculture, export diversification) and sets the corresponding objectives. Staff welcomes priorities and objectives focused on improving competitiveness and market integration of agricultural products and addressing vulnerability to climate change, given that the sector remains the main driver of growth and an avenue for reducing rural poverty. The program objectives correspond to the outlined key development priorities: repairing financial sector will help to promote credit and to improve access to financing, reforming utility tariff setting will contribute to the energy sector efficiency, improving governance and transparency will encourage growth-enhancing investment.

PROGRAM MODALITIES AND CAPACITY TO REPAY

A. Program Monitoring and Financing

27. Program monitoring will continue to be guided by semi-annual reviews, semi-annual and continuous performance criteria and indicative targets, and structural benchmarks. The attached Letter of Intent (LOI) and Supplemental Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and updated program conditionality is presented in SMEFP Tables 2 and 3. A revised TMU is also attached.

28. The program remains fully financed, with firm financing assurances in place for the next 12 months, and good prospects for the remainder of the program period. The size of the external financing package, estimated at US$617.5 million for the remaining period under the program, will allow reserves to be built up to the top end of the Fund's ARA metric (149.3 percent of the metric by end-2018). Relative to program approval, external support in 2017 is lower by US$49 million, on account of: (i) the rescheduling of one EC MFA tranche to 2018 due to administrative procedures and additional conditionality; and (ii) the authorities' decision to reschedule the World Bank DPO to the first half of 2018. As a result, and in light of higher EC budget support grants, external financing in 2018 will be higher than programmed by US$56 million. The Romanian authorities made the second disbursement of €50 million in February 2017, with a third tranche of €40 million scheduled for November 2017 (Table 8). As part of the second Fund disbursement of around US$21.2 million (SDR 15.7 million), US$12.9 million will be disbursed for budget support.

B. Capacity to Repay the Fund and Risks to the Program

29. Moldova is expected to meet its repayment obligations to the Fund. Exposure to the Fund will reach 5.3 percent of GDP in 2017, before declining to 4.0 percent of GDP by the end of the proposed ECF/EFF (Table 7). Total debt service to the Fund will reach 0.1 percent of total exports in 2017, and will gradually decline to 0.05 percent of total exports by 2022. Moldova has a strong track record in repayments to the Fund as indicated by timely repurchases to date, and risks of debt distress remain low.

30. Program performance, and the authorities' commitment, mitigate the risks to the program which remain large, but which should not affect Moldova's capacity to repay. Momentum could be dampened if political divisions start to erode program ownership, and/or as vested interests impede reforms, particularly in the financial sector. Given the extent of vulnerabilities in the banking sector, program conditionality remains heavily focused on the financial sector. In the energy sector, there remains a fiscal risk related to accumulated intra-firm debt and arrears as well as non-transparent regulatory decisions.

31. An updated safeguards assessment of the NBM was completed in February 2017. The safeguards framework at the central bank has been strengthened through legal reforms which established a new governance structure with independent oversight over NBM management. Transparency and accountability practices adhere to international standards, and the NBM continues to maintain sound operational controls. The assessment made recommendations to enhance internal oversight on reserves management and to update regulations on liquidity lending. Plans are underway to implement these measures.

STAFF APPRAISAL

32. The authorities are making progress in tackling long-standing vulnerabilities in the financial sector, but challenges are significant. Continued steadfast efforts to strengthen the governance and financial conditions of the banks, as well as to enhance the regulatory and supervisory frameworks remain critical for long-term growth and development. Near-term priorities include: fully identifying banks' UBOs and related parties, ensuring fitness and propriety of bank investors, directors and managers, readying the largest banks to exit intensive supervision, and continued efforts to enhance the enforcement regime, removing any expectation of regulatory forbearance. The heavy financial sector reform agenda, and the likely challenges brought on by vested interests, require strong political support and protection of NBM staff. Insulating the NBM from political interference, together with judicial reforms, will be essential to ensure successful implementation of the financial sector reform agenda. Adoption of a strategy for recovering embezzled funds from banks that collapsed in 2014 will be important to mark the authorities' commitment to no longer tolerate abuse of banks by their owners and managers.

33. The 2017 budget and the medium-term fiscal framework are consistent with program targets. Priority actions this year include strengthening revenues, improving the efficiency of spending, and completing an effective public administration reform. Resources made available from these efforts should be directed toward capital expenditure and targeted social assistance, following a mid-year supplementary budget. Structural fiscal reforms would further strengthen fiscal management over the medium term.

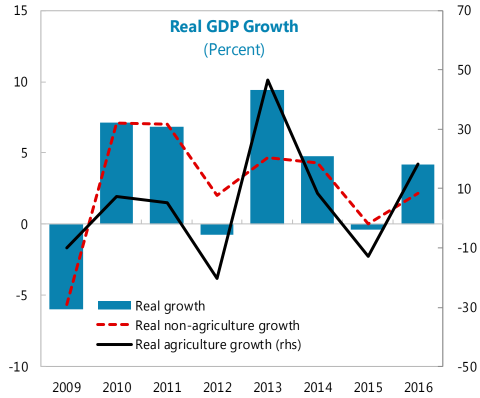
34. Monetary policy should continue to be focused on maintaining price stability in the context of a flexible exchange rate. The NBM should continue to improve its operational capacity and liquidity forecasting and management. It should also stand ready to tighten the monetary policy stance if inflation rises faster than projected. The inflation targeting framework should be improved by strengthening operational procedures, forecasting ability, and policy communications. The NBM's intervention in the foreign exchange market should be limited to only smoothing excess volatility.

35. Steady implementation of structural reforms is indispensable for sustainable growth and poverty reduction. The authorities should continue to work on eliminating accumulated debt by energy companies and improving tariff-setting methodologies, to ensure transparency and cost-recovery. The authorities' Economic Development Document outlines current efforts to assess their poverty reduction strategy with the objective of updating it and aligning it with the UN Sustainable Development Goals. In the coming months the authorities intend to finalize the assessment of the National Development Strategy "Moldova 2020," that will underpin the updated development strategy, outlined in their Economic Development Document.

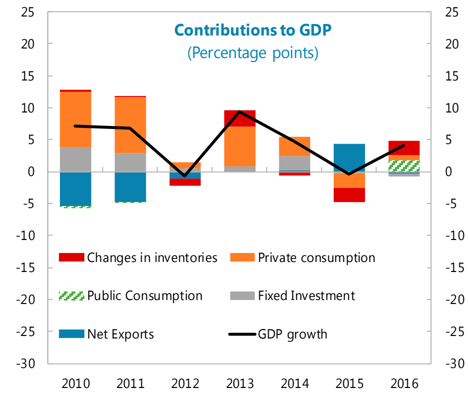
36. Staff supports the authorities' request for the completion of the first review under the ECF/EFF-supported program, and request for modification of two QPCs. Modification of the deficit PC in the first half of the year is proposed, reflecting updated quarterly forecasts of revenues and expenditures, although the year-end deficit target remains unchanged (¶21). Modification of the end-June NIR PC is proposed reflecting primarily an updated current account outlook and revised external financing assumptions, and remains in line with the program objective. An end-December NIR consistent with this is also proposed (¶27). The program remains broadly on track, enjoys strong ownership, and while risks to the program remain significant, the firm commitment of the authorities to sound economic management and financial sector and structural reforms warrant continued Fund support.

Figure 1. Moldova: Real Sector Developments

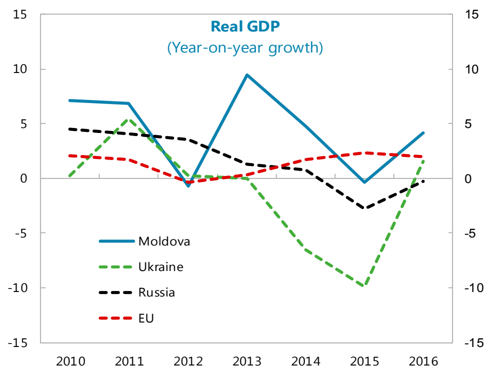
In 2016, the economy expanded stronger than expected, led by a rebound in agriculture.



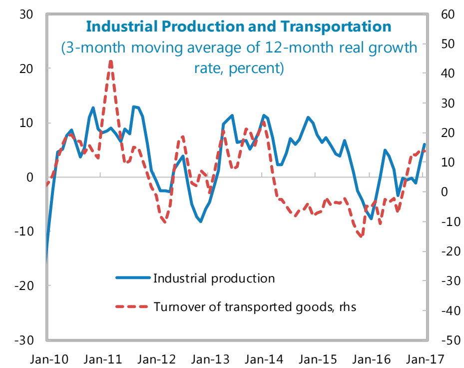
The growth in 2016 was supported by recovery of private consumptions and exports.



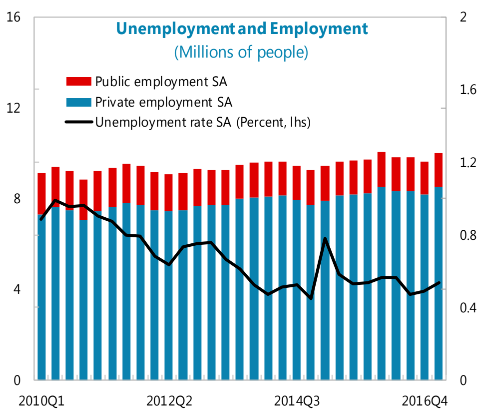
Improved growth outlook of main trading partners contributed to the output recovery in 2016.



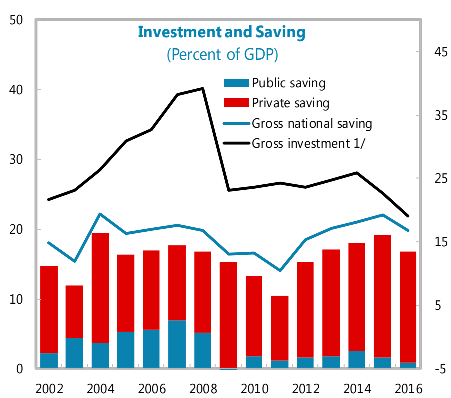
Short-term activity indicators indicate a pickup of the economic activity.



The unemployment rate remains low as migration acts as a shock absorber.

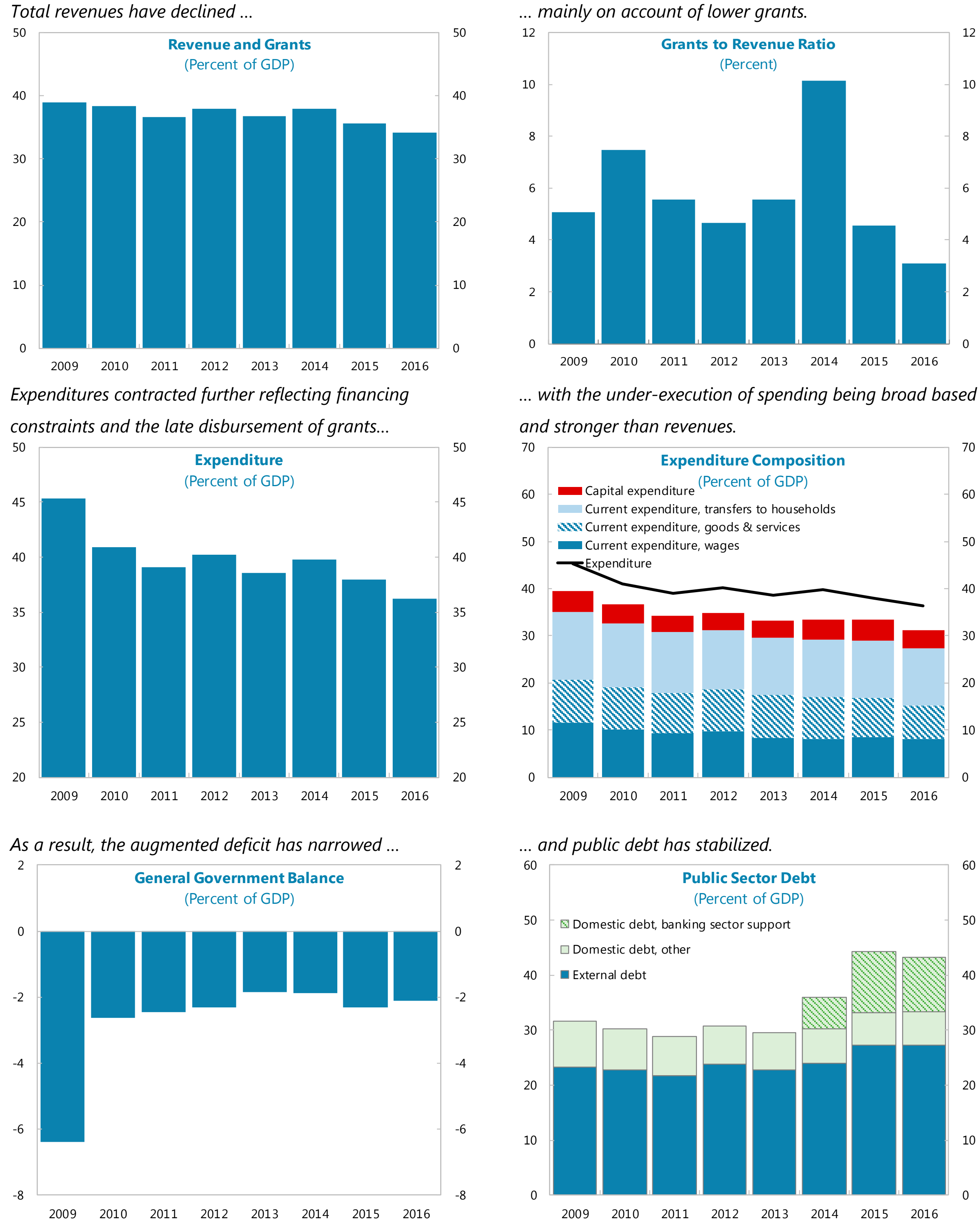


Investment in 2016 was constraint by tight financing.



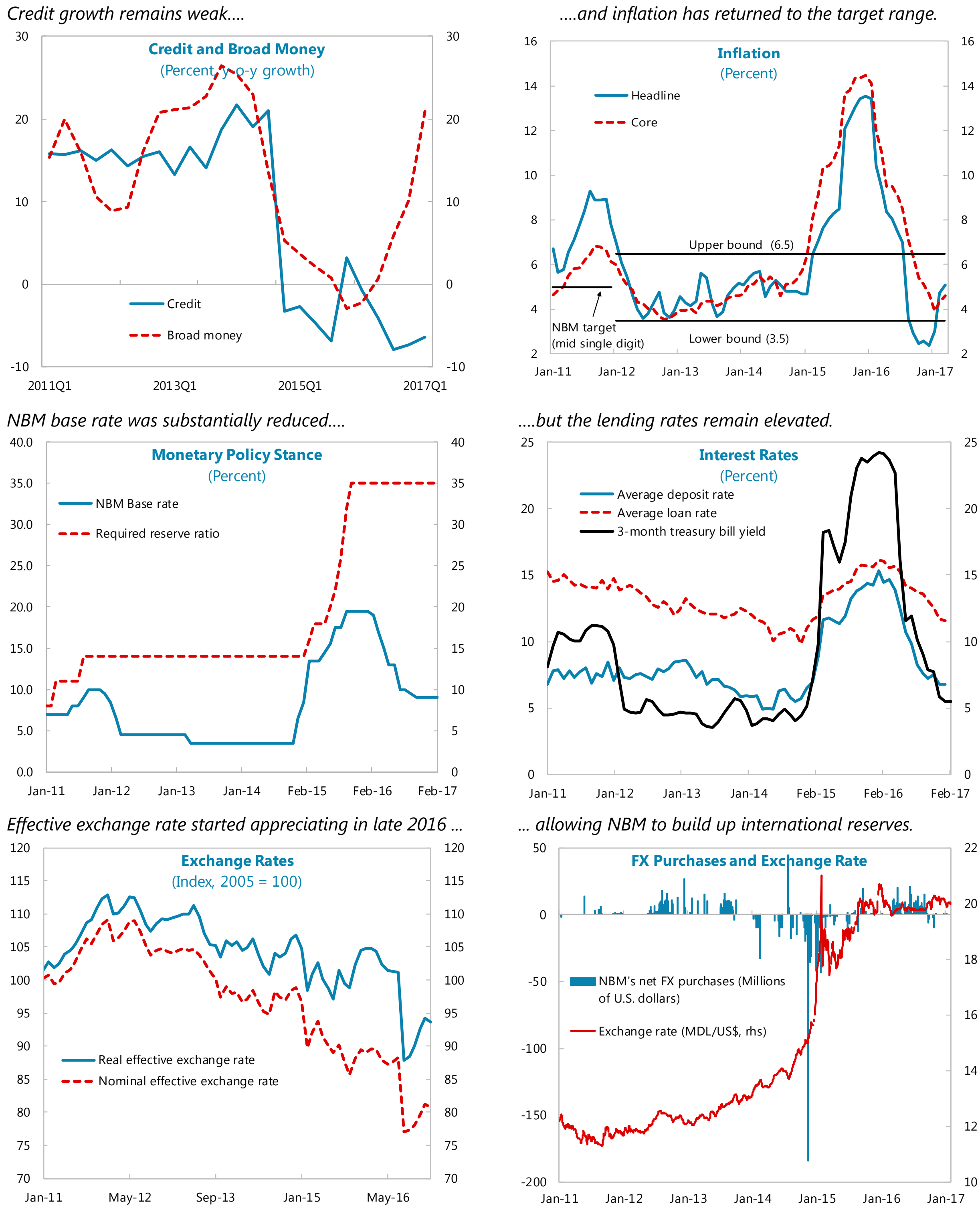
Sources: Moldovan authorities; National Bureau of Statistics of the Republic of Moldova; and IMF staff calculations.
1/ As of 2016, capital transfers are excluded from transfers to economy and recorded under capital expenditure.

Figure 2. Moldova: Fiscal Developments, 2009–16



Sources: National authorities; and IMF staff calculations.

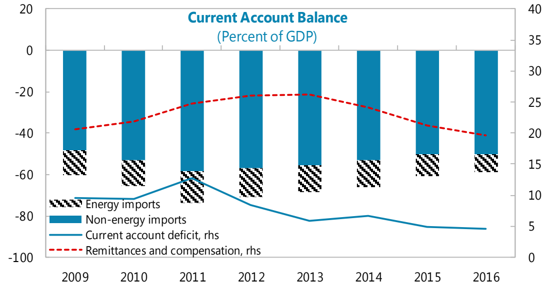
Figure 3. Moldova: Money, Prices, and Interest Rates, 2011–16



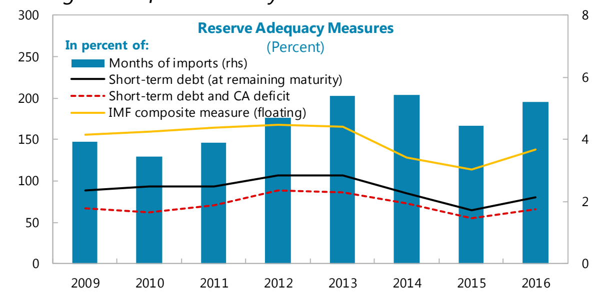
Sources: National authorities; and IMF staff calculations.

Figure 4. Moldova: External Sector Developments, 2009–16

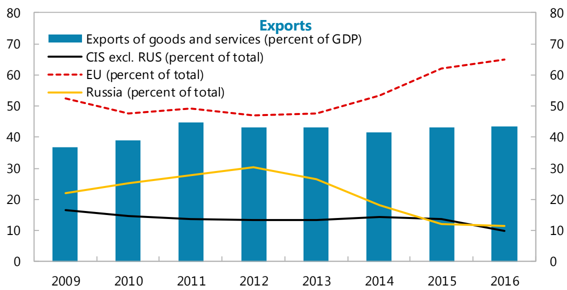
CA improved in 2016, benefiting from lower price of energy imports and a recovery in exports.



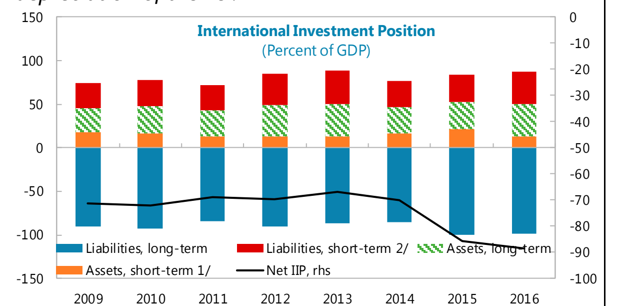
External buffers have built-up and are expected to strengthened further next year.



Exports growth in EU markets has been offsetting the lower export shares to CIS.



Net FDI in terms of GDP is expected to recover due to the decline in nominal GDP in US dollars related to the depreciation of the Lei.



Sources: National Bank of Moldova; Moldovan Authorities; and IMF staff calculations.
1/ Short-term assets include portfolio investment, financial derivatives, trade credits and currency and deposits.
2/ Short-term liabilities include portfolio investment, financial derivatives, trade credits, short-term loans by banks and other sectors, currency and deposits, short-term other liabilities by general government, banks and other sectors.

Table 1. Moldova: Selected Economic Indicators, 2011–22 1/

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
							Projection					
I. Real sector indicators	(Percent change, unless otherwise indicated)											
Gross domestic product												
Real growth rate	6.8	-0.7	9.4	4.8	-0.4	4.1	4.5	3.7	3.8	3.8	3.9	3.9
Demand	8.2	0.4	6.2	3.6	-3.2	3.2	4.7	3.4	3.5	3.0	3.2	3.2
Consumption	7.3	0.9	5.2	2.7	-1.1	3.0	3.6	3.4	3.6	2.5	2.7	2.7
Private	9.3	1.0	6.5	3.2	-2.3	3.6	2.4	3.8	4.0	2.7	2.9	2.9
Public	-1.0	0.6	-0.8	-0.8	-0.4	-0.5	9.8	1.9	1.7	1.8	1.9	1.9
Gross capital formation	13.0	1.8	3.3	10.0	-1.2	-3.0	9.2	3.5	3.5	5.2	5.5	4.9
Private	16.4	1.6	2.7	7.7	-2.4	-1.0	2.3	3.0	4.0	4.3	4.5	4.5
Public	-3.3	3.4	6.4	22.4	4.5	-12.2	44.0	5.4	1.9	8.2	9.0	6.0
Net Exports of goods and services	-12.1	-2.8	0.0	0.3	11.7	-1.8	1.6	-2.4	-2.5	0.1	-0.5	-0.1
Exports of goods and services	27.4	1.7	10.7	1.0	2.3	8.8	4.1	3.1	3.3	5.2	5.2	5.7
Imports of goods and services	19.7	2.2	5.5	0.4	-4.3	5.9	1.9	2.8	3.0	3.3	3.5	3.7
Nominal GDP (billions of Moldovan lei)	82.3	88.2	100.5	112.0	122.6	134.5	148.3	161.9	176.4	192.3	209.8	228.9
Nominal GDP (billions of U.S. dollars)	7.0	7.3	8.0	8.0	6.5	6.7	7.4	7.7	8.1	8.6	9.1	9.4
Consumer price index (average)	7.6	4.6	4.6	5.1	9.6	6.4	5.9	5.4	5.3	5.0	5.0	5.0
Consumer price index (end of period)	7.8	4.0	5.2	4.7	13.5	2.4	6.5	5.5	5.0	5.0	5.0	5.0
GDP deflator	7.2	7.9	4.1	6.4	9.8	5.3	5.5	5.3	5.0	5.0	5.0	5.0
Average monthly wage (Moldovan lei)	3,194	3,478	3,765	4,172	4,611	5,084	5,620	6,140	6,700	7,290	7,940	8,650
Average monthly wage (U.S. dollars)	272	287	299	297	245	255	281	293	308	325	343	355
Unemployment rate (annual average, percent)	6.7	5.6	5.1	3.9	4.9	4.2	4.3	4.2	4.2	4.2	4.2	4.2
Poverty headcount ratio at national poverty lines (percent)	17.5	16.6	12.7	11.4								
Saving-investment balance	(Percent of GDP)											
Foreign saving	12.8	8.4	5.9	6.7	4.9	4.1	5.0	4.9	5.0	5.2	5.4	5.5
National saving	10.5	15.3	17.1	18.0	19.2	18.2	18.2	18.2	18.2	18.5	18.7	19.1
Private	9.3	13.7	15.3	15.5	17.5	17.3	15.5	16.4	15.6	15.7	15.6	13.3
Public	1.2	1.6	1.8	2.6	1.7	0.9	2.7	1.8	2.5	2.8	3.0	5.8
Gross investment	23.3	23.6	22.9	24.7	24.1	22.3	23.1	23.1	23.2	23.6	24.1	24.6
Private	19.8	20.1	19.4	20.4	19.7	18.6	18.1	17.9	18.1	18.3	18.4	18.8
Public 2/	3.5	3.6	3.6	4.3	4.4	3.7	5.1	5.2	5.1	5.3	5.6	5.8
II. Fiscal indicators (general government)												
Primary balance	-1.7	-1.6	-1.4	-1.4	-1.5	-0.8	-2.4	-2.1	-1.7	-1.6	-1.6	-1.4
Overall balance	-2.5	-2.3	-1.9	-1.9	-2.3	-2.1	-3.7	-3.3	-2.9	-2.9	-2.8	-2.7
Stock of public and publicly guaranteed debt	29.0	30.9	29.6	36.0	44.8	43.3	44.3	45.2	46.0	45.4	45.8	46.7
III. Financial indicators	(Percent change, unless otherwise indicated)											
Broad money (M3)	10.6	20.8	26.5	5.3	-3.0	10.2	11.3	…	…	…	…	…
Velocity (GDP/end-period M3; ratio)	2.0	1.8	1.6	1.7	1.9	1.9	1.9	…	…	…	…	…
Reserve money	21.8	19.7	27.0	6.3	7.1	12.1	8.8	…	…	…	…	…
Credit to the economy	15.0	16.1	18.8	-3.3	3.2	-7.4	3.7	…	…	…	…	…
Credit to the economy, percent of GDP	37.6	40.7	42.5	36.8	34.8	29.3	27.6	…	…	…	…	…
IV. External sector indicators	(Millions of U.S. dollars, unless otherwise indicated)											
Current account balance	-900	-610	-469	-534	-322	-305	-369	-381	-407	-443	-489	-514
Current account balance (percent of GDP)	-12.8	-8.4	-5.9	-6.7	-4.9	-4.5	-5.0	-4.9	-5.0	-5.2	-5.4	-5.5
Remittances and compensation of employees (net)	1,733	1,893	2,098	1,929	1,386	1,331	1,401	1,440	1,509	1,568	1,616	1,664
Gross official reserves	1,965	2,515	2,821	2,157	1,757	2,206	2,406	2,605	2,633	2,648	2,680	2,725
Gross official reserves (months of imports)	3.9	4.7	5.4	5.4	4.4	5.2	5.5	5.7	5.4	5.1	4.9	4.7
Exchange rate (Moldovan lei per USD, period avge)	11.7	12.1	12.6	14.0	18.8	19.9	20.0	21.0	21.7	22.4	23.2	24.4
Exchange rate (Moldovan lei per USD, end of period)	11.7	12.1	13.1	15.6	19.7	20.0	20.1	21.1	21.9	22.6	23.4	24.6
Real effective exch.rate (average, percent change)	5.9	4.1	-2.3	-3.0	-3.4	2.1	-0.5	-0.4	-0.3	-0.1	0.0	0.0
Real effective exch.rate (end-year, percent change)	9.4	-2.9	-3.7	1.6	-2.5	3.0	-0.7	-0.5	-0.3	-0.1	0.0	0.0
External debt (percent of GDP) 3/	76.9	82.7	84.5	84.9	98.6	97.2	94.7	94.9	91.4	86.5	81.5	79.0
Debt service (percent of exports of goods and services)	15.8	15.0	17.6	15.4	13.6	11.2	20.3	26.2	27.4	25.1	23.2	21.8

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

2/ Includes externally financed on-lending to SOEs as of 2016.

3/ Includes private and public and publicly guaranteed debt.

Table 2. Moldova: Balance of Payments, 2011–22

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
							Projection					
Current account balance	-900	-610	-469	-534	-322	-305	-369	-381	-407	-443	-489	-514
Merchandise trade balance	-2,876	-2,936	-2,999	-2,900	-1,959	-1,913	-1,971	-1,961	-2,038	-2,158	-2,260	-2,356
Exports	2,282	2,233	2,470	2,354	1,985	2,061	2,271	2,419	2,569	2,749	2,950	3,186
Imports	-5,158	-5,169	-5,469	-5,254	-3,944	-3,975	-4,242	-4,380	-4,607	-4,907	-5,210	-5,543
Of which: energy imports	-1,047	-1,040	-1,046	-998	-666	-574	-675	-707	-734	-764	-811	-862
Services balance	31	9	16	-31	5	71	74	63	68	86	97	108
Exports of services	861	902	985	969	822	894	909	934	982	1,046	1,103	1,163
Imports of services	-830	-893	-969	-1,000	-817	-824	-835	-871	-914	-959	-1,006	-1,055
Income balance	577	817	872	825	461	452	430	439	450	471	489	527
Compensation of employees	869	961	1,074	991	700	646	700	708	748	783	819	856
Income on direct and portfolio investment	-238	-87	-139	-106	-192	-151	-178	-155	-162	-172	-181	-188
Income on other investment	-54	-56	-63	-60	-47	-43	-92	-114	-136	-141	-148	-141
Current transfer balance	1,368	1,499	1,642	1,572	1,171	1,086	1,098	1,078	1,112	1,158	1,186	1,208
Remittances	865	933	1,023	938	686	685	700	732	761	785	797	808
Budget transfers	107	129	151	204	150	100	101	76	67	74	71	71
Other transfers	396	438	468	430	335	300	297	270	284	300	317	329
Capital and financial account balance	769	692	568	-229	22	675	404	423	389	480	516	535
Capital account balance	-19	-37	-35	-62	-67	-63	-52	-54	-41	-34	-30	-31
Financial account balance	789	729	603	-167	88	738	456	477	430	514	546	567
Foreign direct investment balance	268	175	214	158	165	134	175	177	196	187	198	205
Portfolio investment and derivatives	0	21	10	14	3	0	3	4	5	7	8	8
Other investment balance	521	532	380	-339	-79	604	279	296	230	321	340	354
Loans	170	282	202	-17	30	21	137	170	66	120	137	151
General government, net	18	62	26	69	89	46	128	149	33	74	77	87
Private sector, net	152	220	177	-85	-59	-25	9	21	33	47	60	63
Other capital flows	351	251	178	-322	-110	583	141	126	164	200	204	203
Errors and omissions	93	94	87	-77	-55	31	0	0	0	0	0	0
Overall balance	-37	176	186	-841	-355	401	35	41	-18	37	27	22
Financing gap	…	…	…	…	…	195	250	242	125	0	0	0
Financing	37	-176	-186	841	355	-401	-35	-41	18	-37	-27	-22
Gross international reserves (increase: "-")	-275	-498	-282	538	306	-531	-200	-199	-28	-14	-32	-45
Use of Fund credit, net	153	139	-22	-29	-41	-37	-43	-19	-47	-72	-47	-30
Monetary authorities	129	139	-22	-29	-35	-37	-43	-19	-47	-52	-45	-30
Purchases	135	155	0	0	0	12	17	39	7	0	0	0
Repurchases	-6	-16	-22	-29	-35	-49	-60	-58	-54	-52	-45	-30
General government	24	0	0	0	-6	0	0	0	0	-20	-2	0
Purchases	24	0	0	0	0	24	26	25	26	0	0	0
Repurchases	0	0	0	0	-6	-24	-26	-26	-26	-20	-2	0
Exceptional financing	159	183	117	332	90	7	0	0	0	49	52	54
Other donors	0	0	0	0	0	160	208	177	93	0	0	0
European Commission	0	0	0	0	0	47	110	117	46	0	0	0
World Bank	0	0	0	0	0	45	0	60	47	0	0	0
Romania	0	0	0	0	0	68	99	0	0	0	0	0
Memorandum items:						(Percent of GDP, unless otherwise indicated)						
Gross official reserves (millions of U.S. dollars) 1/	1,965	2,515	2,821	2,157	1,757	2,206	2,406	2,605	2,633	2,648	2,680	2,725
Months of imports of good and services	3.9	4.7	5.4	5.4	4.4	5.2	5.5	5.7	5.4	5.1	4.9	4.7
Percent of short term debt and CA deficit	70.6	87.9	86.7	72.7	62.6	62.8	65.4	70.8	69.5	67.1	65.1	67.4
Pct of short-term debt at remaining maturity	93.1	106.2	106.4	84.4	71.6	76.1	79.0	81.5	80.5	78.3	76.2	78.1
Pct of the IMF composite measure (floating) 2/	163.6	168.1	165.0	128.4	112.4	134.9	143.8	149.3	147.7	145.6	144.3	143.6
Current account balance	-12.8	-8.4	-5.9	-6.7	-4.9	-4.5	-5.0	-4.9	-5.0	-5.2	-5.4	-5.5
Goods and services trade balance	-40.5	-40.2	-37.4	-36.7	-30.0	-27.3	-25.6	-24.6	-24.3	-24.2	-23.9	-23.9
Export of goods and services	44.8	43.0	43.3	41.6	43.1	43.8	42.9	43.4	43.8	44.2	44.7	46.3
Import of goods and services	-85.3	-83.2	-80.6	-78.3	-73.1	-71.1	-68.5	-68.0	-68.0	-68.4	-68.6	-70.3
Foreign direct investment balance	3.8	2.4	2.7	2.0	2.5	2.0	2.4	2.3	2.4	2.2	2.2	2.2
						(Percent change of amounts in U.S.dollars, unless otherwise indicated)						
Exports of goods	43.5	-2.1	10.6	-4.7	-15.7	3.9	10.2	6.5	6.2	7.0	7.3	8.0
Exports of services	26.5	4.8	9.2	-1.6	-15.1	8.7	1.6	2.8	5.2	6.4	5.5	5.5
Imports of goods	35.4	0.2	5.8	-3.9	-24.9	0.8	6.7	3.3	5.2	6.5	6.2	6.4
Imports of services	17.9	7.6	8.5	3.3	-18.3	0.8	1.4	4.3	5.0	4.9	4.9	4.9
Remittances and compensation	36.2	9.2	10.8	-8.0	-28.1	-4.0	5.2	2.8	4.8	3.9	3.1	3.0
Remittances	46.7	7.9	9.7	-8.3	-26.9	-0.1	2.2	4.5	3.9	3.1	1.6	1.3
Compensation of employees	27.1	10.5	11.8	-7.8	-29.4	-7.7	8.4	1.1	5.7	4.7	4.5	4.5
Debt service (pct of exports of goods and services)	15.8	15.0	17.6	15.4	13.6	11.2	20.3	26.2	27.4	25.1	23.2	21.8

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

1/ Includes revaluation changes, which were not captured by changes of gross official reserves in the BOP.

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

Table 3a. Moldova: General Government Budget, 2011–22

(Millions of Moldovan lei, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
						Prelim			Projection			
Revenues and grants	30,138	33,476	36,908	42,456	43,670	45,947	51,616	55,938	60,952	66,322	72,187	78,962
Revenues	28,553	31,981	34,962	38,542	41,764	44,574	48,887	53,775	59,673	64,944	70,684	77,322
Tax revenues	26,107	29,430	32,677	36,284	38,758	42,502	46,812	51,069	55,913	61,328	67,282	73,951
Personal income	1,769	2,027	2,206	2,447	2,745	3,182	3,334	3,728	4,063	4,429	4,831	5,271
Corporate income	571	1,967	2,053	2,431	2,808	3,363	3,617	3,950	4,305	4,692	5,119	5,585
Property tax	284	303	317	346	359	404	501	536	572	609	665	725
VAT	10,464	10,672	12,174	12,852	13,714	14,564	15,986	17,184	18,710	20,498	22,402	24,931
Excises	2,667	2,894	3,508	3,428	3,844	4,546	5,254	5,456	5,961	6,542	7,169	7,821
Foreign trade	1,179	1,287	1,417	1,457	1,328	1,452	1,333	1,582	1,708	1,854	2,033	2,276
Other	975	1,333	1,259	2,536	1,835	1,722	1,651	1,802	1,964	2,141	2,336	2,548
Social Fund contributions	6,563	7,150	7,776	8,372	9,269	10,031	11,578	12,872	14,249	15,727	17,383	18,964
Health Fund contributions	1,636	1,798	1,967	2,414	2,855	3,240	3,560	3,958	4,381	4,835	5,344	5,831
Non-tax revenues	2,445	2,552	2,285	2,259	3,006	2,072	2,075	2,706	3,760	3,616	3,402	3,372
NBM profit transfers	30	35	114	125	889	0	0	0	0	0	0	0
Grants	1,586	1,495	1,946	3,914	1,906	1,373	2,729	2,163	1,279	1,378	1,503	1,640
Budget support	923	760	704	1,606	0	953	1,769	1,577	1,007	1,097	1,197	1,305
Project	663	735	1,242	2,307	1,906	420	960	586	272	281	307	335
Expenditure and net lending	32,163	35,513	38,779	44,572	46,502	48,774	57,086	61,202	66,150	71,888	78,091	85,142
Current expenditure	29,296	32,347	35,175	39,752	41,059	43,773	49,553	52,830	57,141	61,602	66,276	71,823
Wages	7,700	8,506	8,296	9,088	10,530	10,967	12,461	13,192	13,891	14,585	15,315	16,080
Goods and services	7,010	7,985	9,260	9,960	10,151	9,498	11,316	12,357	13,467	14,678	16,013	17,470
Interest payments	673	694	527	624	1,099	1,812	2,023	2,170	2,507	2,716	2,745	3,261
Domestic	486	504	324	395	832	1,477	1,551	1,638	1,779	2,010	1,953	2,355
Foreign	188	191	203	229	268	334	473	532	728	706	791	906
Transfers	11,660	12,208	13,293	14,920	16,903	18,198	20,130	21,235	23,144	25,225	27,519	30,022
Transfers to economy 1/	1,020	1,111	1,119	1,358	2,126	1,799	2,146	2,343	2,554	2,783	3,037	3,313
Transfers to households	10,640	11,097	12,173	13,562	14,777	16,399	17,984	18,892	20,590	22,441	24,482	26,709
Other current expenditure	2,253	2,953	3,800	5,161	2,376	3,299	3,622	3,877	4,132	4,398	4,685	4,991
Capital expenditure	2,867	3,166	3,604	4,819	5,443	5,000	7,534	8,372	9,009	10,286	11,815	13,319
Of which: SOEs onlending projects						340	1,203	1,432	675	737	807	880
One-off revenue and expenditure items 2/	0	0	0	0	0	-13,341	0	0	0	0	0	0
Augmented overall balance (incl. one-off items) 3/	-2,024	-2,037	-1,871	-2,116	-2,832	-16,168	-5,470	-5,264	-5,198	-5,566	-5,904	-6,179
Augmented overall balance (excl. one-off items) 3/	-2,024	-2,037	-1,871	-2,116	-2,832	-2,827	-5,470	-5,264	-5,198	-5,566	-5,904	-6,179
Augmented primary balance (excl. one-off items) 3/	-1,400	-1,404	-1,426	-1,577	-1,816	-1,131	-3,569	-3,384	-2,996	-3,010	-3,327	-3,096
Financing (excl. one-off items)	2,024	2,037	1,871	2,116	2,832	107	2,563	2,592	3,628	5,566	5,904	6,179
Budget financing	1,128	624	658	409	499	-1,431	49	-1,588	2,091	4,090	4,465	4,587
Central government	702	545	299	131	133	-451	82	-1,588	2,091	4,090	4,465	4,587
Net domestic	880	294	644	-78	17	-127	1,508	560	5,366	6,502	6,494	6,495
Net foreign (excl. project loans)	-355	-145	-697	-241	-437	-710	-1,856	-2,348	-3,475	-2,563	-2,179	-2,059
Privatization	136	132	93	191	35	279	220	200	200	150	150	150
Others	41	263	260	259	518	108	210	0	0	0	0	0
Local governments	322	-36	167	245	239	-794	-126	0	0	0	0	0
Social Fund	125	34	65	-9	37	-96	0	0	0	0	0	0
Health Fund	-21	81	126	42	90	-91	93	0	0	0	0	0
Net project loans	897	1,413	1,213	1,707	2,333	1,538	2,514	4,180	1,537	1,476	1,439	1,593
Of which: Onlending (through commercial banks)	0	0	0	0	0	-38	-1,400	-761	-2,101	-2,288	-2,477	-2,590
Financing gap	0	0	0	0	0	2,719	2,907	2,672	1,570	0	0	0
World Bank						889	0	1,257	1,016	0	0	0
IMF						476	511	534	554	0	0	0
Others						1,355	2,396	881	0	0	0	0
Financing for one-off items												
Government securities issued	0	0	0	0	0	13,341	0	0	0	0	0	0
Memorandum items:						(Millions of Moldovan lei)						
Public and publicly guaranteed debt	23,874	27,261	29,722	40,367	54,943	58,268	65,883	73,431	81,583	87,760	96,465	107,312
General Government debt	19,886	21,500	23,772	33,690	47,220	51,219	59,614	67,261	76,194	83,378	93,024	104,442
Domestic debt	5,842	6,159	6,676	13,375	20,809	21,520	24,608	25,168	30,533	35,036	41,530	48,025
Domestic expenditure arrears	164	62	89	98	744	101	0	0	0	0	0	0
External debt	13,880	15,280	17,008	20,217	25,667	29,599	35,007	42,094	45,660	48,342	51,494	56,417
Other 4/	3,987	5,760	5,950	6,677	7,723	7,048	6,269	6,169	5,390	4,383	3,441	2,870

Sources: Moldovan authorities; and IMF staff estimates and projections.

1/ As of 2016, capital transfers are excluded from transfers to economy and recorded under capital expenditure.

2/ Includes banking sector resolution costs in 2016.

3/ Augmented balance includes externally financed on-lending to SOEs.

4/ Includes mainly central bank liabilities to the IMF.

Table 3b. Moldova: General Government Budget, 2011–22

(Percent of GDP, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
						Prelim	Projection					
Revenues and grants	36.6	37.9	36.7	37.9	35.6	34.2	34.8	34.6	34.5	34.5	34.4	34.5
Revenues	34.7	36.2	34.8	34.4	34.1	33.1	33.0	33.2	33.8	33.8	33.7	33.8
Tax revenues	31.7	33.4	32.5	32.4	31.6	31.6	31.6	31.5	31.7	31.9	32.1	32.3
Personal income	2.1	2.3	2.2	2.2	2.2	2.4	2.2	2.3	2.3	2.3	2.3	2.3
Corporate income	0.7	2.2	2.0	2.2	2.3	2.5	2.4	2.4	2.4	2.4	2.4	2.4
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
VAT	12.7	12.1	12.1	11.5	11.2	10.8	10.8	10.6	10.6	10.7	10.7	10.9
Excises	3.2	3.3	3.5	3.1	3.1	3.4	3.5	3.4	3.4	3.4	3.4	3.4
Foreign trade	1.4	1.5	1.4	1.3	1.1	1.1	0.9	1.0	1.0	1.0	1.0	1.0
Other	1.2	1.5	1.3	2.3	1.5	1.3	1.1	1.1	1.1	1.1	1.1	1.1
Social Fund contributions	8.0	8.1	7.7	7.5	7.6	7.5	7.8	8.0	8.1	8.2	8.3	8.3
Health Fund contributions	2.0	2.0	2.0	2.2	2.3	2.4	2.4	2.4	2.5	2.5	2.5	2.5
Non-tax revenues	3.0	2.9	2.3	2.0	2.5	1.5	1.4	1.7	2.1	1.9	1.6	1.5
NBM profit transfers	0.0	0.0	0.1	0.1	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.9	1.7	1.9	3.5	1.6	1.0	1.8	1.3	0.7	0.7	0.7	0.7
Budget support	1.1	0.9	0.7	1.4	0.0	0.7	1.2	1.0	0.6	0.6	0.6	0.6
Project	0.8	0.8	1.2	2.1	1.6	0.3	0.6	0.4	0.2	0.1	0.1	0.1
Expenditure and net lending	39.1	40.3	38.6	39.8	37.9	36.3	38.5	37.8	37.5	37.4	37.2	37.2
Current expenditure	35.6	36.7	35.0	35.5	33.5	32.6	33.4	32.6	32.4	32.0	31.6	31.4
Wages	9.4	9.6	8.3	8.1	8.6	8.2	8.4	8.1	7.9	7.6	7.3	7.0
Goods and services	8.5	9.1	9.2	8.9	8.3	7.1	7.6	7.6	7.6	7.6	7.6	7.6
Interest payments	0.8	0.8	0.5	0.6	0.9	1.3	1.4	1.3	1.4	1.4	1.3	1.4
Domestic	0.6	0.6	0.3	0.4	0.7	1.1	1.0	1.0	1.0	1.0	0.9	1.0
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4
Transfers	14.2	13.8	13.2	13.3	13.8	13.5	13.6	13.1	13.1	13.1	13.1	13.1
Transfers to economy 1/	1.2	1.3	1.1	1.2	1.7	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Transfers to households	12.9	12.6	12.1	12.1	12.1	12.2	12.1	11.7	11.7	11.7	11.7	11.7
Other current expenditure	2.7	3.3	3.8	4.6	1.9	2.5	2.4	2.4	2.3	2.3	2.2	2.2
Capital expenditure	3.5	3.6	3.6	4.3	4.4	3.7	5.1	5.2	5.1	5.3	5.6	5.8
Of which: SOEs onlending projects						0.3	0.8	0.9	0.4	0.4	0.4	0.4
One-off revenue and expenditure items 2/	0.0	0.0	0.0	0.0	0.0	-9.9	0.0	0.0	0.0	0.0	0.0	0.0
Augmented overall balance (incl. one-off items) 3/	-2.5	-2.3	-1.9	-1.9	-2.3	-12.0	-3.7	-3.3	-2.9	-2.9	-2.8	-2.7
Augmented overall balance (excl. one-off items) 3/	-2.5	-2.3	-1.9	-1.9	-2.3	-2.1	-3.7	-3.3	-2.9	-2.9	-2.8	-2.7
Augmented primary balance (excl. one-off items) 3/	-1.7	-1.6	-1.4	-1.4	-1.5	-0.8	-2.4	-2.1	-1.7	-1.6	-1.6	-1.4
Financing (excl. one-off items)	2.5	2.3	1.9	1.9	2.3	0.1	1.7	1.6	2.1	2.9	2.8	2.7
Budget financing	1.4	0.7	0.7	0.4	0.4	-1.1	0.0	-1.0	1.2	2.1	2.1	2.0
Central government	0.9	0.6	0.3	0.1	0.1	-0.3	0.1	-1.0	1.2	2.1	2.1	2.0
Net domestic	1.1	0.3	0.6	-0.1	0.0	-0.1	1.0	0.3	3.0	3.4	3.1	2.8
Net foreign (excl. project loans)	-0.4	-0.2	-0.7	-0.2	-0.4	-0.5	-1.3	-1.5	-2.0	-1.3	-1.0	-0.9
Privatization	0.2	0.1	0.1	0.2	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Others	0.0	0.3	0.3	0.2	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Local governments	0.4	0.0	0.2	0.2	0.2	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0
Social Fund	0.0	0.1	0.1	0.0	0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0
Health Fund	0.2	0.0	0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net project loans	1.1	1.6	1.2	1.5	1.9	1.1	1.7	2.6	0.9	0.8	0.7	0.7
Of which: Onlending (through commercial banks)						0.0	-0.9	-0.5	-1.2	-1.2	-1.2	-1.1
Financing gap	0.0	0.0	0.0	0.0	0.0	2.0	2.0	1.7	0.9	0.0	0.0	0.0
World Bank						0.7	0.0	0.8	0.6	0.0	0.0	0.0
IMF						0.4	0.3	0.3	0.3	0.0	0.0	0.0
Others						1.0	1.6	0.5	0.0	0.0	0.0	0.0
Financing for one-off items												
Government securities issued	0.0	0.0	0.0	0.0	0.0	9.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Public and publicly guaranteed debt	29.0	30.9	29.6	36.0	44.8	43.3	44.3	45.2	46.0	45.4	45.8	46.7
General Government debt	24.1	24.4	23.7	30.1	38.5	38.1	40.0	41.4	42.9	43.1	44.2	45.4
Domestic debt	7.1	7.0	6.6	11.9	17.0	16.0	16.6	15.5	17.3	18.2	19.8	21.0
Domestic expenditure arrears	0.2	0.1	0.1	0.1	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0
External debt	16.9	17.3	16.9	18.0	20.9	22.0	23.4	25.9	25.6	24.9	24.4	24.5
Other 4/	4.8	6.5	5.9	6.0	6.3	5.2	4.2	3.8	3.1	2.3	1.6	1.3

Sources: Moldovan authorities; and IMF staff estimates and projections.

1/ As of 2016, capital transfers are excluded from transfers to economy and recorded under capital expenditure.

2/ Includes banking sector resolution costs in 2016.

3/ Augmented balance includes externally financed on-lending to SOEs.

4/ Includes mainly central bank liabilities to the IMF.

Table 4. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2011–17

(Millions of Moldovan lei, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017
							Proj.
National Bank of Moldova							
Net foreign assets	19,146	24,690	30,969	27,540	27,826	37,695	42,955
NFA (convertible)	19,188	24,693	31,006	27,539	27,850	38,041	43,348
Gross reserves	23,025	30,339	36,829	33,676	34,536	44,078	48,387
Reserve liabilities	3,836	5,647	5,823	6,137	6,686	6,037	5,039
Net domestic assets	-1,992	-4,159	-4,891	182	1,863	-4,419	-6,736
Net claims on general government	323	192	476	-270	-1,163	10,397	8,734
Credit to banks	-2,514	-3,451	-2,340	7,427	13,399	-5,915	-6,665
Other items (net)	199	-900	-3,027	-6,975	-10,373	-8,901	-8,805
Reserve money	17,154	20,531	26,078	27,722	29,689	33,276	36,219
Currency in circulation	10,895	13,241	17,550	17,500	15,509	17,274	19,227
Banks' reserves	6,259	7,285	8,515	10,222	13,335	15,007	16,991
Required reserves	4,450	5,202	6,346	6,290	11,521	13,494	15,115
Other reserves	1,809	2,082	2,169	3,932	1,814	1,513	1,876
Monetary survey							
Net foreign assets	16,450	23,141	31,550	43,153	48,815	61,523	68,080
NFA (convertible)	16,845	23,427	31,731	37,497	43,317	55,633	61,525
Of which: commercial banks	-2,344	-1,266	725	9,958	15,466	17,593	18,177
Foreign assets of commercial banks	3,538	4,778	10,496	19,005	22,205	22,274	22,956
Foreign liabilities of commercial banks	-5,881	-6,044	-9,770	-9,047	-6,739	-4,681	-4,779
NFA (non-convertible)	-395	-286	-181	5,656	5,499	5,889	6,555
Net domestic assets	24,527	26,372	31,081	22,820	15,191	8,997	10,413
Net claims on general government	1,512	1,004	1,387	821	-177	12,586	12,061
Credit to economy	30,963	35,948	42,691	41,273	42,593	39,455	40,899
Moldovan lei	17,174	20,624	25,347	25,173	24,091	21,657	22,719
Foreign exchange	13,788	15,324	17,343	16,100	18,503	17,798	18,180
in U.S. dollars	1,175	1,270	1,328	1,031	941	891	904
Other items (net)	-7,948	-10,580	-12,996	-19,274	-27,226	-43,044	-42,547
Broad money (M3)	40,977	49,513	62,632	65,973	64,006	70,520	78,493
Broad money (M2: excluding FCD)	28,265	34,915	45,117	43,220	39,261	46,430	52,150
Currency in circulation	10,865	13,241	17,550	17,509	15,509	17,274	19,227
Total deposits	30,113	36,272	45,081	48,464	48,497	53,245	59,266
Domestic currency deposits	17,400	21,674	27,567	25,711	23,751	29,155	32,923
Foreign currency deposits (FCD)	12,712	14,599	17,514	22,753	24,745	24,090	26,343
in U.S. dollars	1,083	1,210	1,341	1,457	1,259	1,206	1,310
Memorandum items:							
Reserve money growth (percent change; annual)	21.8	19.7	27.0	6.3	7.1	12.1	8.8
Broad money growth (percent change; annual)	10.6	20.8	26.5	5.3	-3.0	10.2	11.3
Credit to economy (percent change, annual)	15.0	16.1	18.8	-3.3	3.2	-7.4	3.7
in lei	10.6	20.1	22.9	-0.7	-4.3	-10.1	4.9
in foreign exchange ($ equivalent)	25.4	8.1	4.6	-22.4	-8.7	-5.4	1.5
Gross international reserves (millions of U.S. dollars)	1,962	2,515	2,821	2,157	1,757	2,206	2,406
Percent of domestic-currency broad money	81	87	82	78	88	95	93
Net international reserves (millions of U.S. dollars)	1,635	2,047	2,375	1,764	1,417	1,904	2,156
Broad money multiplier	2.4	2.4	2.4	2.4	2.2	2.1	2.2

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

Table 5. Moldova: Quantitative Performance Targets, January–December 2017

(Cumulative from the beginning of calendar year; millions of Moldovan lei unless otherwise indicated)

	Dec 2016		March 2016		2017		
	Target	Actual	Target	Actual [4/]	Jun	Sep	Dec
1. Quantitative performance criteria [1/]							
Ceiling on the ***augmented*** cash deficit of the general government	4,668	2,827	1,844	N/A	3,670	5,485	5,513
Of which: on-lending agreements with external creditors to state-owned enterprises	396	340	107	N/A	410	808	1,203
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) [2/]	1,833	1,894	1,818	1,953	1,843	1,962	2,131
2. Continuous performance criteria							
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	N/A	0	0	0
Ceiling on absorption by the government of losses or liabilities and making of payments on behalf of utilities and other companies	0	0	0	N/A	0	0	0
3. Indicative targets							
Ceiling on the stock of accumulated domestic government arrears [3/]	466	101	35	N/A	26	13	0
Ceiling on the general government wage bill	11,323	10,967	2,850	N/A	6,358	9,292	12,461
Floor on priority social spending of the general government	16,182	16,012	4,000	N/A	8,450	12,766	17,365
4. Inflation Consultation Bands (in percent) [1/]							
Outer Band (upper limit)	5.5		6.2		7.7	8.2	8.5
Inner Band (upper limit)	4.5		5.2		6.7	7.2	7.5
Actual / Center point	3.5	2.4	4.2	5.1	5.7	6.2	6.5
Inner Band (lower limit)	2.5		3.2		4.7	5.2	5.5
Outer Band (lower limit)	1.5		2.2		3.7	4.2	4.5

1/ Indicative targets for March and September.

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

3/ As of January 2017, domestic expenditure arrears exclude local governments.

4/ N/A - data not available at the time of the Staff Report issuance

Table 6. Moldova: Schedule of Reviews and Disbursements 1/

Available on or after	Amount of Purchase (millions of SDRs)			Percent of Quota		Conditions
	Total	ECF	EFF	ECF	EFF	
1. November 7, 2016	26.0	8.7	17.3	5	10	Board approval of the Arrangement
2. March 20, 2017	15.7	5.2	10.5	3	6	Observance of end-December 2016 performance criteria and completion of first review
3. September 20, 2017	15.7	5.2	10.5	3	6	Observance of end-June 2017 performance criteria and completion of second review
4. March 20, 2018	24.0	8.0	16.0	5	9	Observance of end-December 2017 performance criteria and completion of third review
5. September 20, 2018	24.0	8.0	16.0	5	9	Observance of end-June 2018 performance criteria and completion of fourth review
6. March 20, 2019	24.0	8.0	16.0	5	9	Observance of end-December 2018 performance criteria and completion of fifth review
Total	129.4	43.1	86.3	25	50	

Source: IMF staff estimates.

1/ Moldova's quota is SDR 172.5 million.

Table 7. Moldova: Indicators of Fund Credit, 2011–22 1/

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
							Projection					
Fund obligations based on existing credit												
(millions of SDRs)												
Principal	3.9	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	34.4	17.9
Charges and interest	1.3	1.4	1.7	1.7	1.6	1.5	1.9	1.7	1.4	1.1	0.8	0.6
Fund obligations based on existing and prospective credit												
Principal	3.9	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	23.2
Charges and interest	0.8	1.2	1.7	1.7	1.6	1.5	2.1	2.3	2.3	2.0	1.7	1.4
Total obligations based on existing and prospective credit												
Millions of SDRs	4.7	11.7	15.8	21.0	30.7	54.1	65.6	64.7	61.3	55.3	37.0	24.7
Millions of U.S. dollars	7.4	18.0	24.1	31.9	43.0	76.2	93.1	91.9	87.0	78.5	52.5	35.0
Percent of exports of goods and services	0.2	0.6	0.7	1.0	1.5	2.6	2.9	2.7	2.4	2.1	1.3	0.8
Percent of debt service 2/	8.5	19.7	23.7	31.1	46.6	59.1	47.7	41.1	32.7	30.8	22.6	15.7
Percent of GDP	0.1	0.2	0.3	0.4	0.7	1.1	1.3	1.2	1.1	0.9	0.6	0.4
Percent of gross international reserves	0.4	0.7	0.9	1.5	2.4	3.5	3.9	3.5	3.3	3.0	2.0	1.3
Percent of quota	3.8	9.5	12.9	17.0	24.9	31.3	38.0	37.5	35.5	32.1	21.4	14.3
Outstanding Fund credit based on existing and prospective credit												
Millions of SDRs	308.7	398.2	384.0	364.7	335.6	309.1	277.0	262.6	227.5	174.2	138.9	115.7
Millions of U.S. dollars	487.3	609.9	583.6	553.9	470.4	435.3	393.2	372.6	322.9	247.2	197.1	164.2
Percent of exports of goods and services	15.5	19.5	16.9	16.7	16.8	14.8	12.4	11.1	9.1	6.5	4.9	3.8
Percent of debt service 2/	561.8	668.6	575.2	539.3	509.8	337.6	201.6	166.8	121.3	97.0	84.8	73.9
Percent of GDP	6.9	8.4	7.3	6.9	7.2	6.4	5.3	4.8	4.0	2.9	2.2	1.7
Percent of gross international reserves	24.8	24.2	20.7	25.7	26.8	19.7	16.3	14.3	12.3	9.3	7.4	6.0
Percent of quota	250.6	323.2	311.7	296.0	272.4	179.2	160.6	152.2	131.9	101.0	80.5	67.1
Net use of Fund credit (millions of SDRs)	96.1	89.5	-14.2	-19.3	-29.1	-26.6	-32.1	-14.5	-35.0	-53.4	-35.3	-23.2
Disbursements and purchases 3/	100.0	100.0	0.0	0.0	0.0	26.0	31.4	48.0	24.0	0.0	0.0	0.0
Repayments and repurchases	3.9	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	23.2
Memorandum items:												
Exports of goods and services (millions of U.S. dollars)	3,143	3,135	3,454	3,323	2,807	2,939	3,180	3,353	3,551	3,795	4,053	4,349
Debt service (millions of U.S. dollars) 2/	86.7	91.2	101.5	102.7	92.3	128.9	195.0	223.4	266.3	254.8	232.4	222.2
Nominal GDP (millions of U.S. dollars) 2/	7,018	7,283	7,985	7,983	6,514	6,750	7,413	7,727	8,116	8,577	9,062	9,392
Gross International Reserves (millions of U.S. dollars)	1,965	2,515	2,821	2,157	1,757	2,206	2,406	2,605	2,633	2,648	2,680	2,725
Average exchange rate: SDR per U.S. dollars	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Quota (millions of SDRs)	123.2	123.2	123.2	123.2	123.2	172.5	172.5	172.5	172.5	172.5	172.5	172.5

Sources: IMF staff estimates and projections.

1/ Assume repurchases are made on obligations schedule.

2/ Total debt service includes IMF repurchases and repayments.

3/ In 2009, does not include Moldova use of the SDR allocation of SDR 117.71 million.

Table 8. Moldova: External Financing Requirements and Sources, 2016–19

(Millions of U.S. dollars)

	2016	2017	2018	2019
		Projection		
Identified financing sources	1124	818	1011	999
Financing requirements	870	869	1053	1096
of which: fiscal financing requirements	209	324	354	221
Change in gross reserves (increase = +)	449	200	199	28
Financing gap	195	250	242	125
Official Financing	195	250	242	125
Identified program financing	160	208	177	93
European Commission	47	110	117	46
World Bank	45	0	60	47
Romania	68	99	0	0
Fund Program	35	42	64	32
of which: budget support	24	26	25	26

Sources: Moldovan authorities; and IMF staff projections.

Annex I. Risk Assessment Matrix 1/

Source of Risks	Impact if Realized	Policy Response
Policy and geopolitical uncertainties:		
Regional conflicts. An escalation of conflict depresses business confidence and heightens risk aversion, amid disturbances in trade and commodity markets.	A disruption of trade routes, a drop in exports, or a decline in remittances could impact the Moldovan economy.	➢ Accelerate diversification of external trade products and markets, and energy sources ➢ Let the exchange rate adjust to facilitate absorption of the external shock ➢ Strengthen external buffers ➢ Speed up structural reform to increase competitiveness
Retreat from cross-border integration. A fraying consensus about the benefits of globalization could lead to protectionism and economic isolationism, leading to reduced global and regional policy collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth.	Lower export demand, falling remittances and other financial flows (e.g., trade credits, grants) would induce lower growth, higher budget deficits and exchange rate pressure.	
Intensification of the risks of fragmentation/security dislocation in part of the Middle East, Africa, and Europe, leading to a sharp rise in migrant flows, with negative global spillovers.		
Weaker-than-expected global growth:		
Structurally weak growth in key advanced and emerging economies (Euro area): Low productivity growth (U.S., the Euro Area, and Japan), a failure to fully address crisis legacies and undertake structural reforms, and persistently low inflation (the euro area, and Japan) undermine medium-term growth in advanced economies (high likelihood). Resource misallocation and policy missteps, including insufficient reforms, exacerbate declining productivity growth in emerging markets (medium likelihood).	Lower export demand, falling remittances and other financial flows (e.g., trade credits, grants) would induce lower growth, higher budget deficit, exchange rate pressures, and banking sector difficulties.	➢ Let the exchange rate adjust to facilitate absorption of the external shock ➢ Speed up structural reform to increase competitiveness ➢ Accelerate the diversification of external trade products and markets
Significant slowdown in other large EMs/frontier economies: Turning of the domestic credit cycle in addition to lower trend productivity and potential growth generates disorderly household and corporate deleveraging, with potential spillbacks to advanced economies.		
Domestic risks affecting implementation of the financial sector agenda:		
On-site inspections reveal further asset quality and governance issues.	Credit supply would decline, the costs of dealing with bank distress would rise further, and a generalized loss of confidence may emerge.	➢ Apply promptly appropriate tools under the new resolution framework ➢ Enforce shareholder and beneficial ownership transparency and suitability requirements ➢ Step up anticorruption and AML/CFT efforts
Judicial interference continues to obstruct NBM supervisory actions.		

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. (The scenario most likely to materialize in the view of IMF staff.) The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. ("Low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more.) The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.
Note: Colored boxes on the left-hand side represent shock likelihood in case the baseline does not materialize, and color boxes on the right-hand side represent severity of impact. Red = High, Orange = Medium, and Green = Low

Appendix I. Letter of Intent

Chişinău

March 24, 2017

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

Dear Ms. Lagarde:

1. Moldova has made an ambitious start in implementing its ECF/EFF-supported program. We met all quantitative performance criteria, all but one indicative target, and 5 of 6 structural benchmarks. Financial and economic stability are starting to return following a period of significant economic and political turmoil, with growth rebounding more strongly than expected. Looking forward, our economy is projected to grow by 4.5 percent in 2017, and by around 4 percent over the medium term. This growth is vital to the creation of jobs and poverty reduction. Nevertheless, challenges remain.

2. Our fundamental goal remains unchanged, namely to protect long term financial stability by delivering a system of sound financial institutions operating within a strong regulatory and supervisory environment. To support these objectives, we will implement wide ranging measures, with a particular focus at this stage on financial sector and energy related issues. Notably:

3. In the **financial sector** we will take action to strengthen the governance and financial conditions of banks by bringing full transparency to bank shareholders, certifying the fit and proper status of bank owners and administrators, identifying related party lending, and ensuring compliance with regulatory and capital requirements. We will also act to further enhance our regulatory and supervisory frameworks, and to improve the infrastructure of the financial system.

4. In the **energy sector** we will continue to work on eliminating accumulated debt by energy companies and improving tariff setting methodologies, in order to ensure transparency and cost recovery. We will also enhance the independence of the energy regulator by improving the transparency and accountability of the regulator's management selection and decision making processes.

5. Regarding **fiscal policy**, our 2017 budget and medium term budget framework are consistent with our commitments under the program. We will continue to develop the tax system, so that it yields stable revenue, and is uncomplicated, efficient, and transparent, while paying due attention to fairness and equity. Our medium term fiscal strategy is focused on strengthening revenues, improving expenditure efficiency, and reforms that would generate additional revenue for much needed capital and social spending.

6. To support our efforts to **reduce poverty** and achieve sustainable and inclusive growth our Economic Development Document specifies priority areas (education, business climate, energy consumption and efficiency, agriculture, export diversification) and sets the corresponding objectives. Our commitments under the program are aligned with the key development priorities outlined in the document: improving access to financing and promoting credit, improving the energy sector efficiency, strengthening governance and transparency. This program of the Government continues to enjoy broad political support, and our reform efforts are backed by a Parliamentary majority. Our own rigorous efforts, along with the financial and technical support of our international partners, will be critical to continuing to rebuild confidence and support broad-based inclusive growth.

7. On the basis of our performance to date, our ongoing commitment to the objectives of the program, the specific commitments outlined in the attached Supplementary MEFP, and recently implemented upfront actions, we request the completion of the first review under the blended Extended Credit Facility and Extended Fund Facility arrangements; establishment of Quantitative Performance Criteria and Indicative Targets through December 2017 (Table 1); modification of performance criteria on the cash deficit and NIR; establishment of Structural Benchmarks through end-December 2017 (Table 2); and associated disbursement of SDR 15.7 million.

8. The Moldovan authorities remain firmly committed to achieving the targets and benchmarks outlined in the Memorandum of Economic and Financial Policies (MEFP) of October 24, 2016, and as updated in the Supplementary Memorandum of Economic and Financial Policies (SMEFP) (attached here). We believe that these strong policies will keep Moldova on the path to achieve the program objectives. Nonetheless, the government stands ready to take additional measures that may be adequate for the successful implementation of the program. The government will consult with the Fund on the adoption of such measures and in advance of revisions to the policies contained in the MEFP in accordance with the Fund’s policies on such consultations. We will provide the Fund with the information it requests for monitoring our progress.

9. Maintaining our commitment to the policy of transparency, we consent to the publication of this letter, the attached SMEFP, and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

/s/

Pavel Filip

Prime Minister, Government of the Republic of Moldova

/s/

Octavian Calmîc

Deputy Prime Minister

Minister of Economy

/s/

Octavian Armaşu

Minister of Finance

/s/

Sergiu Cioclea

Governor

National Bank of Moldova

Attachments: Supplementary Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Attachment I. Supplementary Memorandum of Economic and Financial Policies

I. Recent Developments and Outlook

1. **Recent macroeconomic performance has been stronger than expected**. Economic growth in 2016, which reached 6.3 percent in the third quarter (yoy), was buoyed by a good harvest and strong exports. Inflation decelerated sharply to 2.4 percent (yoy) at end-2016 (from 13.5 percent in 2015), to just outside the inner band of the consultation clause, but is expected to pick up in the near term to return to the inflation-targeting corridor (5 percent ±1.5 pp). The augmented overall deficit reached 2.1 percent of GDP, (compared to 3.5 percent projected), on the back of lower spending and higher excise and trade taxes. The current account deficit continued to narrow driven by a surge in agriculture-related exports.

2. **Looking forward, growth will be supported by domestic and external factors**. Growth prospects for 2017 have been marked up to 4.5 percent (from 3.0), in light of expected stronger agricultural performance in the first half of the year and better external prospects. Over the medium term, the economy is projected to grow close to the potential rate of 3.9 percent. Repairing financial intermediation and promoting credit to productive sectors of the economy should support such growth. Inflation is expected to return to the target range in the first quarter of 2017 as domestic demand continues to strengthen. Planned adjustments of administered prices, higher international food and oil prices, and a low base effect in addition to stronger domestic demand will leave inflation at 6.5 percent by year end (5.5 percent on average). The external outlook is expected to strengthen, in part anticipating an improvement of trade with Russia.

II. Policy Framework

A. Financial Sector Policies

3. **Our fundamental goal remains unchanged, namely to protect long term financial stability by delivering a system of sound financial institutions operating within a strong regulatory and supervisory environment**. This will allow banks to assume their proper role in supplying credit to productive sectors, supporting stronger economic growth. To this end, we have:

- conducted onsite inspections in two of the three largest banks. The inspections included a review of the status of implementation of remedial action plans, which were adopted earlier following the special diagnostic studies. The third large bank, currently under NBM temporary administration (early intervention regime), was submitted to an assessment of assets, liabilities, and equity by an external appraiser, as provided for in the law.

- continued to make progress in increasing shareholder transparency in the two largest banks. Specifically, NBM, having previously blocked and cancelled the shares of non-transparent shareholders: (i) identified the remaining qualified shareholders (shareholder holding ≥1 percent of total shares); and (ii) sought that blocked shares and shares issued to replace cancelled shares be sold to fit and proper investors in the largest bank. Prospective investors have concluded the due diligence of one bank under intensive supervision, with a view to conclude the transaction by end-April 2017.

- increased our capacity to identify credit concentration. In particular, we have developed an interface to the newly created public credit registry, which enables the monitoring of credit exposures of large economically interconnected groups.

4. Looking forward, our efforts will build on these achievements, and will seek to:

- Strengthen governance and financial condition of banks

  a. We will finalize **the identification of the UBOs** of all qualified shareholders (>1%) in the three largest banks. We will conduct additional fit-and-proper assessment in cases where identified UBOs present suspicions. With regard to shareholders with unidentified UBOs, we will take appropriate supervisory actions **(prior action)**. Such actions may initially include imposing financial penalties and further limiting activities of the bank, but can escalate to blocking the shares from voting and dividend payments, and ordering shareholders to dispose of the shares.

  b. In light of the blocking and cancellation of significant amounts of shares, efforts are underway to verify that a quorum of fit and proper shareholders is in place in the two large banks. This includes investigations of the identity of all shareholders with 0.5 percent or larger stakes in the respective banks.

  c. We reiterate our existing commitments to ensure the identification of UBOs of all qualified shareholders (>1 percent) in second and third tier banks by end-June 2017 and end-August 2017 respectively **(modified structural benchmarks)**.

d. We are committed to ensure **fit-and-proper certification** of incoming bank investors, directors, and managers. From end-April 2017, the NBM will require affidavits from incoming shareholders and managers as part of their fit-and-proper tests.

e. Based on the findings of recent onsite inspections in two large banks and the external assessment of assets, liabilities, and equity in a bank in the early intervention regime, NBM will complete a capital assessment of these banks and take appropriate enforcement and corrective supervisory actions for breaches of banking regulations, including AML/CFT **(structural benchmark, end-April and end-June 2017, respectively)**. The banks will continue to be under NBM intensive supervision until they have: (i) fully implemented remedial action plans from 2016; (ii) adopted plans to unwind above-limit large and related-party exposures; and (iii) their blocked shares or shares issued to replace cancelled shares have been disposed of.

f. NBM in coordination with MOF, and consultation with the National Committee on Financial Stability, as necessary, will adopt a strategy to allow a large bank to exit temporary administration (early intervention regime) **(prior action)**. The final stages of the strategy will be executed by end-July **(structural benchmark)**.

g. We will further enhance our capacity and efforts to identify related parties by: (i) adopting new review and investigation procedures to support NBM in applying its newly acquired powers to presume relatedness **(prior action)**; (ii) enhancing our electronic examination system to capture characteristics meeting each of the criteria for presuming relatedness **(structural benchmark, end-June 2017)**; and (iii) ensuring that the identity of cancelled shareholders and any relevant relationships is preserved in our supervisory records.

h. We will conduct thematic reviews of related party exposures in the three largest banks assisted by international reputable experts/companies **(structural benchmark, end-August 2017)**. The reviews will apply the new procedures for inspection and investigation. To recognize any residual risk to capital and ensure appropriate discipline, we will formally determine the presumed related parties and exposures.

i. Full scope onsite inspections of smaller banks that are not part of foreign banking groups will be conducted applying the above procedures for related party identification by end-December 2017 **(structural benchmark)**. Full scope inspections in remaining banks that are part of foreign banking groups, will be concluded by end-March 2018.

- Enhance the regulatory and supervisory frameworks:

j. We will continue implementing a strategy for addressing remaining deficiencies identified in the BCP assessment of the 2014 FSAP. Based on the legal powers provided in July 2016, we have drafted new regulations on large exposures, internal governance and risk management, and external audits. We have also drafted a new regulation regarding fit and proper tests and certification of bank administrators.

k. We will amend the legal framework for removing shareholders who act in concert without prior supervisory approval **(structural benchmark, end-April 2017)**. The objective is to: (i) mitigate legal risks for banks and other stakeholders (ii) prevent decapitalization of banks below prudential norms, and (iii) allow for more time and price flexibility in the sales process (to increase the likelihood of private sector solutions).

l. We will amend laws/regulations to ensure adequate treatment of cancelled shareholders in resolution, and ii) that deposits of affiliates that are not significant shareholders, members of decision making bodies and their affiliates, can be paid out or transferred to a good bank in resolution (**prior action**).

- Other:

m. Improving the safety, efficiency and soundness of the securities settlement and registry infrastructure. We will adopt legislation to align relevant laws with the Law on Central Security Depository (CSD) **(prior action)**. In preparation for transferring information from the 11 private registrars to the CSD, NCFM, in consultation with the NBM, will develop and adopt by end-May 2017 a comprehensive methodology and procedures for verification of the integrity of legal records of shareholders, including through a public awareness campaign **(structural benchmark)**. The legal records of all banks and insurance companies will be verified in line with the new procedures by end-2017 (**structural benchmark, end-December 2017**). We have developed an action plan to make the CSD operational and aim to achieve this by March 2018.

n. The second phase of investigation of the 2014 bank fraud is ongoing. At our request, the consortium of firms Kroll and Steptoe & Johnson has been carrying out an investigation of the embezzlement of funds from 3 large banks that collapsed in 2014. The relatively slow pace of investigation, which started in late 2015, reflects the complex and sophisticated nature of the fraudulent schemes that involved a very large number of transactions with hundreds of entities from multiple jurisdictions. Based on the results of investigation, we will prepare by end-April 2017 a strategy to recover some of the stolen assets.

B. Monetary and Exchange Rate Policies

5. Our monetary policy will continue to be implemented within an inflation-targeting framework, complemented by exchange rate flexibility. We expect some further elevation of inflationary pressures later in 2017, but remain committed to maintaining inflation within the target range of 5 percent +/- 1.5 percentage points. We will continue to evaluate the outlook for inflation. We stand ready to pursue a tightening bias should inflation start rising faster than projected. We will consider using the full range of policy tools at our disposal, including increasing the base rate, reserve requirements, and reverse repos. The recently agreed cash buffer (¶10) will also play a supportive role in absorbing structural excess liquidity.

6. We continue to strive to improve our inflation targeting framework, but challenges remain. In particular, we are working to strengthen our operational framework, forecasting abilities, and policy communications. This will include enhanced cooperation and information sharing between NBM, Treasury, and debt management department, as well as measures to develop the secondary market for government securities and interbank money market, in line with past MCM technical assistance (TA). To support these efforts, we will seek follow up Fund TA.

7. The efficiency of NBM's inflation targeting framework is conditional upon its institutional and policy independence, which requires, inter alia, a viable balance sheet. To this end, we commit not to amend the law regulating the securitization of emergency loans extended by NBM to now failed banks. Once the NBM's statutory capital level reaches 10 percent of monetary liabilities, NBM profit transfers to government will be used to repurchase these securities, starting with the longer dated tranches, allowing for a reduction in domestic public debt. We will also use these securities for mopping up bank liquidity via outright sales and reverse repo transactions to address structural excess liquidity.

8. We will not resist exchange rate movements driven by fundamentals, and NBM's intervention in the foreign exchange market will be aimed only at smoothing volatility. Moldova's vulnerability to external shocks points to the need to have a flexible exchange rate arrangement, serving as an efficient absorber of shocks. In this context, the NBM will adhere to flexible exchange rate policies and will intervene in the market to smooth sporadic volatility. The NIR targets set under the program are consistent with these commitments.

9. Looking forward, we will explore potential impediments to sound bank lending. Strengthening the governance, risk management and financial condition of the banking sector will be critical in order to resume credit growth to the private sector, which has been flat or even negative in the past two years. In addition, we will evaluate the effectiveness of financial sector infrastructure with a view to eliminating potential obstacles to effective intermediation. In particular, NCFM and NBM, in cooperation with other State agencies, if needed, will aim to improve the functioning of credit information bureau, and optimize policies and procedures on collateral valuation and repossession.

C. Fiscal Policy

10. Our 2017 budget is consistent with our commitment under the program. The budget aims for an augmented deficit of 5,513 million lei or 3.7 percent of GDP, underpinned by a tax policy effort of about 0.4 percent of GDP, in line with revenue commitments for 2017. Tax and customs measures to be implemented in 2017 aim at increasing revenues and simplifying taxation, including by: (i) raising the excise tax rates on various products imported to Moldova and delivered domestically; (ii) increasing tax rates for real estate, and (iii) establishing the State Tax Service as the single tax administration authority. On the expenditure side, our public wage bill is above the indicative target described in the MEFP of October 24, 2016. This is mainly due to the pension reform law approved in December 2016, which brings the entire public sector under common contribution rules. The net effect on our general government deficit is expected to be limited as the increase in the public sector wage bill will be substantially offset by higher social insurance proceeds.

- *Wages and pensions*. Our public wage bill will be 12,461 million lei, somewhat above the indicative target of 11,924 million lei due to the pension reform. We initiated the reform of our pension system to make it more equitable, sustainable, and transparent. The pension reform law adopted in December 2016 (i) introduces a new benefit formula that strengthens the link between contributions and benefits to improve coverage and compliance; (ii) gradually increases the retirement age to reach 63 for men by 2019 and for women by 2028; (iii) subjects all public sector wages to the same contribution and benefit rules; and (iv) introduces a basic pension to combat old age poverty.

- *Priority spending*. We remain committed to protecting priority social spending **(indicative target)**. We will continue directing resources to provide financial support to vulnerable households through social assistance programs, *Ajutor Social*, and Heating Allowance, and improve the targeting and effective coverage of this support. As regards much needed capital expenditures, the government will continue its efforts to protect capital investment and spending related to activities agreed with foreign donors to safeguard external financing in the coming years.

- *Domestic arrears*. We intend to strengthen our legal and regulatory framework and improve our cash and debt management to clear domestic expenditure arrears by end-December 2017, in line with our commitments described in the MEFP of October 24, 2016 **(indicative target)**. To this effect, we commit to review and strengthen our reporting and monitoring framework of local governments to ensure continuous and timely monitoring of local fiscal risks. We plan to review regulations and seek technical assistance to address (i) the use of short-term debt by local governments, including a requirement to be fully repaid by year-end; (ii) mandatory timing for local budget rectification to ensure that emerging problems in local budgets are addressed as early as possible; (iii) measures that will apply if these requirements are not met.

- *Public Administration Reform*. We have launched a comprehensive public administration reform program to be completed in the fall of 2017, in time to be implemented in the 2018 budget. We have established a Center for Reforms to help us design this and other critical reforms. To this end, we will start from a sector-by-sector rationalization of public wages and employment, and an examination of incentive structures and their setting mechanisms.

- *Cash management*. With a view to improve cash management, as well as to reduce refinancing risks, it is proposed to create a cash buffer. This buffer implies an increase in the stock of the state debt in the amount of up to MDL 2 billion, increasing the balance of funds in the treasury accounts at the end of 2017. The establishment of such a cash buffer will also play a supportive role in NBM's efforts and responsibility to absorb structural excess liquidity. The use of the buffer will be strictly limited and described in the agreement between MOF and NBM.

- *Prudent budgeting*. We will continue to maintain a prudent approach to budget management. We plan to save, rather than spend, any revenue performance above our budgeted revenue projections. This will be reviewed later in 2017 during our budget adjustment process, with any increase of expenditures arising from revenue over performance, based on a thorough cost-benefit analysis.

11. Our Medium-Term Budget Framework for 2018–20 will be in line with program targets (structural benchmark). We have initiated the process for MTBF 2018-20, which we plan to complete by May 2017. We are determined to maintain a prudent fiscal policy and debt profile, while at the same time focusing our resources on social spending and growth-enhancing public spending. For this, we intend to use the escape clause for public capital investment funded by external concessional sources in line with commitments in the MEFP of October 24, 2016. The medium-term fiscal strategy is focused on:

- *Strengthening our revenues*. We will pursue a multifaceted strategy, including broadening the tax base, addressing the shadow economy, and advancing tax administration reforms and tax compliance. We also intend to revise the mechanism of real estate valuation in the cadaster. We commit to review and rationalize various exemptions and/or reduced rates on VAT, excises, CIT, PIT, and property taxes. We will also maintain our focus on enhancing the performance of the large taxpayers office (LTO) and the high wealth individuals (HWI) program. These efforts will also help us to gradually reduce our reliance on external grants.

- *Improving the efficiency of spending and directing fiscal savings from these adjustments toward capital expenditure and targeted social spending*. We intend to unify various non-targeted categorical social benefits to reduce administrative costs and avoid benefits overlap, and direct resources to the existing means-tested programs (*Ajutor Social* and Heating Allowance). We will strengthen these means-tested programs by using more active information campaigns to improve the take-up ratio, indexing the benefits over time, and introducing measures to limit the work disincentives over the medium-term. We intend to improve the efficiency of our spending in the education sector to better align the school network and employment levels with our changing demographics. On health spending, we plan to better design and implement a providers' payment system to improve performance in the sector.

- *Fiscal structural reforms*. We are committed to improve our fiscal rules to provide space for social and development objectives while ensuring fiscal sustainability. We will revisit the fiscal anchor in the Public Finance and Fiscal Responsibility Law and also strengthen our rules by explicitly linking it with debt sustainability. We will seek TA to start preparing and then publish a Fiscal Risk Statement (FRS), accompanying our annual budget documents (starting with the 2018 budget), as a tool to help improve the transparency of fiscal policies and associated risks. We will strengthen monitoring on a quarterly basis of on-lending agreements from external creditors to state-owned enterprises, and will tighten the evaluation framework for entering into such contracts to mitigate fiscal risks. We will develop a regular monitoring mechanism to assess the financial performance of SOEs, and seek to improve the governance and transparency of these enterprises.

D. Structural Reforms

12. We continue to work on eliminating debt accumulated by energy companies and improving tariff-setting methodology, to ensure transparency and cost-recovery.

i. The district heating tariff will be increased by an estimated minimum of 5 percent to allow for adequate investments and current payment obligations, subject to an agreement between ANRE and World Bank **(prior action)**.

- To ensure the sustainability of the system going forward, we will also improve regulations in the heating sector, in line with ANRE's Action Plan agreed with the World Bank **(structural benchmark, end-June 2017)**, including:

  a. Revision and/or clarification of asset valuation and depreciation principles, methodologies and procedures;

  b. Revision and formal approval of methodology for determination of heat losses;

  c. Determination of the amount of tariff deviation (accumulated deficit) and of the recovery mechanisms.

- We will continue to work closely with Termoelectrica, Moldovagaz and the World Bank on restructuring the Termoelectrica's debt accumulated with Moldovagaz, estimated at about US$140 million.

ii. In the electricity sector, we plan to adopt the first tariff supplement according to ANRE decision no. 201, adopted on July 15, 2016, on gradual repayment of accumulated financial deviations to electricity distribution companies. The base tariff adjustment will be made based on the existing methodology. If the base electricity tariff is adjusted based on amendments to the existing methodology, such amendments should be coordinated with, and not opposed by, the Energy Community Secretariat based on the Energy Community law **(prior action)**.

- In close cooperation with the Energy Community Secretariat, we will work on improving the regulatory framework in the energy sector. ANRE, in discussion with stakeholders, is in the process of amending: (i) the methodology for determination, calculation, and approval of the electricity distribution and regulated electricity tariffs and, (ii) the methodology on calculation and determination of regulated gas supply tariffs.

iii. The new Energy Law, expected to be adopted by June, 2017, envisages to improve procedures for the appointment of ANRE directors, so that they are fully transparent and merit-based, and establish clear performance indicators to provide a basis for future independent audits **(structural benchmark end-June 2017)**.

iv. We will continue to provide financial support to vulnerable households through the social assistance programs, *Ajutor Social* and Heating Allowance, and work on improving the targeting of this support and its effective coverage.

13. We view strengthening economic governance and transparency as a top priority and a necessary foundation for robust economic growth. We are committed to taking strong actions to address weak governance and corruption in a number of areas, including enforcement of laws and regulations and effectiveness of the judiciary. These actions are necessary to build public confidence in government, encourage foreign investment, in order to support sustainable economic growth.

- *Anti-corruption measures*: The new asset disclosure framework, expected to become fully operational in 2018, will strengthen oversight of financial disclosure by senior government officials and high wealth individuals. We will also strengthen the implementation of the AML/CFT framework to complement anticorruption efforts. In particular, we will work on ensuring that the legal frameworks for anticorruption and AML/CFT are in line with international standards, particularly with regard to the criminalization of corruption and preventive measures for politically exposed persons. We will continue to implement reforms that improve the independence, effectiveness, transparency, and accountability of the judiciary and of the anti-corruption institutions.

E. Poverty Reduction

14. Our Economic Development Document outlines our strategy to strengthen growth and reduce poverty. We are in the process of undertaking an assessment of our "Moldova 2020" National Development Strategy, with the objective of updating it and aligning it with the UN Sustainable Development Goals. We aim to finalize the assessment of "Moldova 2020" by mid-May 2017, subsequently to have the updated strategy adopted by the parliament.

F. Program Monitoring

15. The program will continue to be monitored through semi-annual reviews, prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. The quantitative performance criteria and indicative targets are set out in Table 1, and further specified in the Technical Memorandum of Understanding (TMU). The prior actions, along with proposed structural benchmarks, are set out in Table 2.

Table 1. Moldova: Quantitative Performance Targets, January–December 2017

(Cumulative from the beginning of calendar year; millions of Moldovan lei unless otherwise indicated)

	Dec 2016		2017			
	Target	Actual	Mar	Jun	Sep	Dec
1. Quantitative performance criteria [1/]						
Ceiling on the ***augmented*** cash deficit of the general government	4,668	2,827	1,844	3,670	5,485	5,513
Of which: on-lending agreements with external creditors to state-owned enterprises	396	340	107	410	808	1,203
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) [2/]	1,833	1,894	1,818	1,843	1,962	2,131
2. Continuous performance criteria						
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	0	0	0
Ceiling on absorption by the government of losses or liabilities and making of payments on behalf of utilities and other companies	0	0	0	0	0	0
3. Indicative targets						
Ceiling on the stock of accumulated domestic government arrears [3/]	466	101	35	26	13	0
Ceiling on the general government wage bill	11,323	10,967	2,850	6,358	9,292	12,461
Floor on priority social spending of the general government	16,182	16,012	4,000	8,450	12,766	17,365
4. Inflation Consultation Bands (in percent) [1/]						
Outer Band (upper limit)	5.5		6.2	7.7	8.2	8.5
Inner Band (upper limit)	4.5		5.2	6.7	7.2	7.5
Actual / Center point	3.5	2.4	4.2	5.7	6.2	6.5
Inner Band (lower limit)	2.5		3.2	4.7	5.2	5.5
Outer Band (lower limit)	1.5		2.2	3.7	4.2	4.5

1/ Indicative targets for March and September.

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

3/ As of January 2017, domestic expenditure arrears exclude local governments.

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

Measure		Timeframe
Prior Actions for Board Consideration of the Review		
Financial sector		
1 Take appropriate supervisory actions with regard to shareholders with unidentified UBOs of the three largest banks. (MEFP ¶4a)	New	
2 Adopt a strategy to allow a large bank to exit temporary administration. (MEFP ¶4f)	New	
3 Adopt new supervisory procedures for applying powers to presume any person as a bank's related party on the basis of objective criteria. (MEFP ¶4g)	New	
4 Amend the laws to ensure adequate treatment of cancelled shareholders in resolution; and that deposits of affiliates that are not significant shareholders, members of decision making bodies and their affiliates, can be paid out or transferred to good bank in resolution. (MEFP ¶4l)	New	
5 Adopt the secondary legislation to enable a proper functioning of the CSD. (MEFP ¶4m)	New	
Energy Sector		
6 Increase the district heating tariff by an estimated minimum of 5 percent to allow for adequate investments and current payment obligations, subject to an agreement between ANRE and World Bank. (MEFP ¶13)	New	
7 Increase the 2017 electricity tariffs that would maintain cost recovery and include the first tariff supplement, as a part of gradual repayment of the recognized financial deviations accumulated by electricity distribution companies. The base tariff adjustment will be made based on the existing methodology. If the base electricity tariff is adjusted based on amendments to the existing methodology, such amendments should be coordinated with, and not opposed by, the Energy Community Secretariat. (MEFP ¶13)	New	
Structural Benchmarks 1/		
Financial Sector		
1 Complete identification of UBOs of	Modified	
1a the fourth and fifth largest banks that are not subsidiaries of foreign banking groups		end-June 2017
1b all remaining banks		end-August 2017
2 Take appropriate enforcement action against any of the three largest banks for non-compliance with regulatory requirements	Modified	
2a Two large banks under intensive supervision		end-April 2017
2b A large bank under temporary administration		end-June 2017
3 Complete an assessment of all banks to confirm compliance with capital requirements	New	
3a Two large banks under intensive supervision		end-April 2017
3b A large bank under temporary administration		end-June 2017
4 Execution of the final stages of a strategy to allow a large bank to exit temporary administration	New	end-July 2017
5 Enhance NBM's internal database for bank claims to capture relevant characteristics for identifying exposures to related party	New	end-June 2017
6 With external assistance, conduct thematic reviews of related party exposures in the three largest banks	Modified	end-August 2017
7 Conduct full-scope on-site inspections in banks that are not subsidiaries of foreign banking groups, applying new procedures for identifying related party exposures	Modified	end-December 2017
8 Adopt a methodology for verification of legal records of shareholders of financial institutions	New	end-May 2017
9 Complete verification of legal records of shareholders of all banks and insurance companies, in line with the new methodology	New	end-December 2017
10 Amend the legal framework for removing shareholders who act in concert without prior supervisory approval	New	end-April 2017
Fiscal sector		
11 Adopt the medium-term budget framework 2018-20	New	end-May 2017
Energy sector		
12 In cooperation with the World Bank, improve the tariff-setting methodology in the heating sector, including	New	end-June 2017
12a Revision and/or clarification of asset valuation and depreciation principles, methodologies and procedures;		
12b Revision and formal approval of methodology for determination of heat losses;		
12c Determination of the amount of tariff deviation (accumulated deficit) and of the recovery mechanisms.		
13 In cooperation with the Energy Community Secretariat, improve energy sector regulation, including making procedures for the appointment of ANRE directors to be fully transparent and merit-based, and establishing clear performance indicators to provide a basis for future independent audit. (MEFP ¶13)	New	end-June 2017

1/ Additional structural benchmarks will be set at the time of the second program review.

Table 3. Moldova: Status of the Structural Benchmarks Under the ECF/EFF

Measure	Program deadline	Status
Structural Benchmarks		
Financial Sector		
1 Conduct full-scope on-site inspections in all banks:		
1a Three largest banks, including off-site verification of remedial action plans	end-February 2017	Met
1b The fourth and fifth largest banks that are not subsidiaries of foreign banking groups	end-May 2017	Modified
1c Remaining banks	end-December 2017	Modified
2 Take appropriate enforcement actions against any of the three banks that have not complied with their remedial action plans.	end-March 2017	Modified
3 Complete identification of UBOs in all banks:		
3a Three largest banks	end-December 2016	Not met and modified
3b The fourth and fifth largest banks that are not subsidiaries of foreign banking groups	end-March 2017	Modified
3c All remaining banks	end-June 2017	Modified
4 Prepare a strategy for addressing key remaining deficiencies identified in the BCP	end-December 2016	Met
5 Conclude the diagnostics on related party lending in all banks.	end-December 2017	Planned
Fiscal framework		
6 Adopt the 2017 budget in line with program targets.	end-November 2016	Met
7 Adopt a Medium Term Budget Framework for 2017–2019 in line with program targets.	end-November 2016	Met
Energy sector		
8 Develop a transparent mechanism to ensure timely adjustment of utility tariffs on the basis of costs to prevent any discretionary delays.	end-March 2017	Met

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 Supplementary Memorandum of Economic and Financial Policies (SMEFP) 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 augmented overall cash deficit of the general government, i.e., the overall cash deficit of the general government augmented by on-lending agreements with external creditors to state-owned enterprises (SOEs) (SMEFP ¶10);
- the ceiling on accumulation of external payment arrears of the general government (continuous).
- the ceiling on absorption by the government of losses or liabilities and making of payments on behalf of utilities and other companies (continuous);

Indicative targets are set on:

- the ceiling on the general government wage bill;
- the floor on priority social spending of the general government;
- the ceiling on stock of accumulated domestic government arrears (continuous);
- the floor on project spending funded from external sources, to comply with the Article 15[1] of the Fiscal Responsibility Law, starting in 2017 for the 2018 budget.

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 19.8698 MDL/US$ (the official rate as of June 30, 2016). Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the cross rates as of end-June 2016 published on the IMF web site http://www.imf.org, including US$/EUR = 1.1102, JPY/US$ = 102.9, CHF/US$ = 0.976, US$/GBP = 1.3488, CNY/US$ = 6.6445, RUB/US$ = 64.1755, SDR/US$ = 0.711134876. The holdings of monetary gold will be valued at US$1,320.75 per one troy ounce.

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 NBM** are defined as gross reserves in convertible currencies minus reserve liabilities in convertible currencies.

- For program monitoring purposes, **gross reserves** of the NBM are defined as 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 explicitly guaranteed government agencies, with a minimum credit rating for such securities of AA-.[1] Excluded from reserve assets are capital subscriptions to foreign financial institutions, long-term non-financial assets, funds disbursed by international institutions and foreign governments assigned for on-lending and project implementation, assets in non-convertible currencies, NBM's claims on resident banks and nonbanks, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets (futures, forwards, swaps, and options).

- **Reserve liabilities of the NBM** are defined as use of Fund credit by the NBM, convertible currency liabilities of the NBM to nonresidents with an original maturity of up to and including

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

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.

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$1,894.2 million as of end-December 2016.

6. For the purposes of calculating overall cash deficit and augmented overall 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).[2] 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.

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 that are elaborated in footnote 2. 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 end-June 2016 amounted to MDL 3,508 billion.

7. The overall cash deficit of the general government is cumulative from the beginning of a calendar year and will be monitored from the financing side at the current exchange rate established by NBM at the date of transaction. Accordingly, the cash deficit is defined, as the sum of net credit of the banking system to the general government (as defined in paragraph 6), the general government's net placement of securities outside the banking system, other net credit from the

[2] For the calculation of the net credit of the banking system to general government the following accounts will be excluded: 1711, 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, 3533 and the group of accounts 2100.

(continued)

domestic non-banking sector to the general government, the general government's receipt of disbursements from external debt[3] for direct budgetary support and for project financing minus amortization paid, and privatization proceeds stemming from the sale of the general government's assets.

8. The ceiling on the augmented overall cash deficit of the general government is the sum of the overall cash deficit (as defined in paragraph 7) and net on-lending to SOEs. Similar to the overall cash deficit, the net on-lending to SOEs is cumulative from the beginning of a calendar year and will be monitored from the financing side at the current exchange rate established by NBM at the date of transaction. That is, the net on-lending to SOEs is defined as the disbursements of on-lending financing from external creditors to SOEs minus their loan repayments.

9. 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.

10. For program monitoring purposes, the definition of **debt** is set forth in point no. 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Decision No. 15688-(14/107) adopted on December 5, 2014).[4] This definition applies also to commitments contracted or guaranteed for which value has not been received, and to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. Excluded from this definition are normal import-related credits, defined as liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion are self-liquidating; they contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities. External debt is defined by the residency of the creditor.

[3] Debt is defined as in footnote 4.

[4] The term "debt" will be understood to mean a current, i.e., 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. Awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

11. 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, onlending 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, onlending 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.

12. 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 new 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.

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

14. The **priority social spending of the general government** is defined as the sum of essential recurrent expenditures including pension[6] and unemployment insurance payments from the Social Insurance Fund (BASS, 9008/00286), the *Ajutor Social* (social assistance program 9015/00320) and

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

[6] The pensions include the following subprograms and activities (excluding distribution expenditures and commission fee for cash withdrawals): 9004 with activities 00258–00266, 00277, 00298, 00344, 9005 with activity 00360, and 9010 with activity 00253.

heating allowance (9015/00322) during the cold season from the central government budget, as well as 94 percent of health expenditures from the main fund of the Health Insurance Fund.

15. For the purposes of the program, general government **domestic expenditure arrears** are defined as non-disputed (in or out-of-court) payment obligations whose execution term has expired and became overdue. They can arise on any expenditure item, including debt service, wages, pensions, energy payments and goods and services. For the purpose of calculating domestic expenditure arrears under the program, local government arrears are excluded.

The **overdue debt is a debt** arising from non-payment of obligations, which have a fixed payment term, and the actual payment has not been effected up to the set term. In cases when the contract does not have the term of payment of receivables, these shall be calculated according to the provisions of Article 80 Paragraph (2) of the Law on Public Finance and Fiscal Responsibility. The term indicated in the contract, for honoring the commitments of a legal entity or an individual towards a public institution shall not exceed 30 days from the date of receipt of funds in the settlement account (except for construction works and capital repairs).

Assessment and reporting of accounts receivable and accounts payable (arrears) shall be done based on the Methodology of Assessment and Reporting of Overdue Receivables and Overdue Accounts Payable (Arrears), approved through the Minister of Finance's Order No. 121 as of September 14, 2016.

Arrears between the state, local government, and social and health insurance budgets, are not counted towards the expenditure arrears' ceiling on the general government.

16. **Absorption of losses or liabilities by the government and making of payments on behalf of utilities and other companies**. The program sets a continuous ceiling of zero on absorption by the public sector of losses or liabilities from outside the budgetary sector. Absorption of losses or liabilities is defined as direct payment by the government of the losses or liabilities of other parties or coverage of losses or liabilities by other transactions, such as accumulated stock of the financial deviation of the utility companies, debt-for-equity swaps or a write-off of tax obligations or other state claims.

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 percentage point around the central point. The outer band is specified as +/- 2 percentage point around the central point. 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.

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

	2016	2017			
	Dec	Mar [1/]	Jun	Sep [1/]	Dec
Outer Band (upper limit)		6.2	7.7	8.2	8.5
Inner Band (upper limit)		5.2	6.7	7.2	7.5
Actual / Center point	**2.4**	**4.2**	**5.7**	**6.2**	**6.5**
Inner Band (lower limit)		3.2	4.7	5.2	5.5
Outer Band (lower limit)		2.2	3.7	4.2	4.5

1/ Indicative targets.

F. Adjusters

18. The adjusters set in this TMU apply for assessing compliance with the program's quantitative targets starting from end-December 2016.

19. The **ceiling on the augmented overall 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.

20. The **ceiling on the augmented overall cash deficit** of the general government will be adjusted upward—that is, the deficit target will be increased—by:

a. the amount of any shortfall between the total amount of actually disbursed and programmed budget support grants from the European Commission. The upward adjustment for 2016 is capped at the equivalent of MDL 220 million, valued at the program exchange rates; and

b. the amount of domestic expenditure arrears cleared upon availability of higher-than-programmed external budget support. For 2016, the programed external budget support equal to the equivalent of MDL 3,133 million, valued at program exchange rates.

21. The **ceiling on the augmented overall cash deficit** of the general government will be adjusted downward—that is, the augmented deficit target will be tightened—by the amount of any shortfall between the total amount of actually disbursed and programmed onlending from external creditors to SOEs.[7] The latter is specified in the text table below.

Programmed Onlending to SOEs and Adjustments to Augmented Fiscal Deficit

	2016	2017 - Cumulative			
		Q1	Q2	Q3	Q4
Onlending to SOEs (programmed amount, millions of U.S. dollars)	17.2	5.3	20.1	39.6	59.0
Maximum downward adjustment on the augmented overall cash deficit (millions of Moldovan lei) 1/	339.6	107.4	410.3	807.5	1203.3

Note: 1/ The adjustments for the year 2017 are evaluated at the exchange rate: 20.4 MDL/USD (the forecast of the Ministry of Economy).

22. The floor on **NIR of the NBM** will be lowered by any shortfall in the official external grants and loans capped at the equivalent of €10 million and €20 million respectively, valued at the program exchange rates.

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.

[7] The SOEs explicitly included in this augmented deficit are Termoelectrica, Moldelectrica, Moldovan Railways, and CET-NORD.

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
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 pension and unemployment payments from the Social Insurance Fund, the *Ajutor Social* (social assistance program) and heating allowance for the cold season from the central government budget, and health expenditures from the main fund of the Health Insurance Fund	Monthly, within three weeks of the end of each month
Domestic debt	Monthly, within two weeks of the end of each month
Domestic arrears	Monthly, within three weeks of the end of each month
Onlending to SOEs by type of onlending projects and external creditors (including loan disbursements and repayments)	Monthly, within three weeks of the end of each month
Onlending via commercial banks by type of onlending projects and external creditors (including loan disbursements and repayments)	Monthly, within three weeks of the end of each month
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 (from NBM's Banking Supervision)	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
Interbank transactions (volumes, average rates)	Weekly, within one week of the end of each week
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
External debt data (to be provided by MoF and NBM)	
Information on all new external loans contracted by the general government or guaranteed by the government.	Monthly, within three weeks of the end of each month
Total public and publicly guaranteed private sector debt service due and debt service paid, by creditor	Quarterly, within three weeks of the end of each quarter
Disbursements of grants and loans by recipient sector (state/local/SOEs), and by creditor	Quarterly, within three weeks of the end of each quarter
Other data (to be provided by NBS)	
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