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REPUBLIC OF MOLDOVA

January 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND REQUESTS FOR AN ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOLDOVA

In the context of the 2021 Article IV Consultation and Requests for an 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** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 20, 2021, consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangements.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 20, 2021, following discussions that ended on October 15, 2021, with the officials of the Republic of Moldova on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 3, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the Republic of Moldova.

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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PRESS RELEASE

PR 21/392

IMF Executive Board Approves Moldova's Requests for Arrangements Under Extended Fund Facility and Extended Credit Facility

FOR IMMEDIATE RELEASE

- *The 40-month program's objectives are to sustain the post-pandemic recovery, address pressing developmental needs, and strengthen governance and institutional frameworks.*
- *The key policy challenge is to design a prudent policy mix to mitigate the impact of the pandemic and pursue developmental objectives without endangering debt sustainability.*
- *Structural reforms will aim to address vulnerabilities to improve the rule of law and the anti-corruption framework and strengthen fiscal and financial governance, ultimately accelerating income convergence between Moldova and European peers.*

WASHINGTON, DC – December 20, 2021. The Executive Board of the International Monetary Fund (IMF) approved Moldova's requests for an economic reform program under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements[1] today. The approval of these requests enables the disbursement about US$79.8 million (SDR 57.2 million). Total envisaged disbursements under Moldova's 40-month ECF/EFF arrangements would amount to about US$558.3 million (SDR 400.0 million).

The Executive Board today also concluded the 2021 Article IV Consultation with Moldova. A separate press release will follow.

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

"The Moldovan authorities have made commendable progress in rehabilitating the banking sector and bolstering macro-financial stability. However, the COVID-19 pandemic, drought in 2020, and the ongoing surge in global energy prices, have slowed economic activity, intensified downside risks, and complicated policy making. While emergency financial assistance from international partners helped cushion the pandemic's economic impact, Moldova remains among the poorest countries in Europe, with long-standing governance and structural weaknesses inhibiting income convergence. Against this backdrop, the IMF-supported programs under the Extended Fund Facility and Extended Credit Facility have three main objectives: first, sustain the post-pandemic recovery; second, address pressing developmental needs, and third, strengthen Moldova's governance and institutional frameworks.

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

“The authorities responded quickly to address the negative macro-economic impact of the combined shocks, focusing on urgently needed policies in support of the healthcare system, social assistance programs, and business activity. However, the under-execution of approved COVID-related crisis measures emphasizes the need to address longstanding capacity constraints. A strong policy mix, including a near-term fiscal stance that carefully balances targeted social assistance and development spending, is needed to sustain the recovery.

“Recent reforms implemented by the National Bank of Moldova (NBM) and supported by the IMF have proven vital for preserving macro-financial stability during the crisis. Looking ahead, the authorities should continue their efforts to improve the national bank’s policy credibility and effectiveness; bolster financial sector supervision, financial crisis management, and macroprudential frameworks; and strengthen the national bank’s governance, transparency, and accountability. Safeguarding the NBM’s independence remains a critical precondition for its effectiveness and credibility. In addition, addressing significant vulnerabilities in the non-bank financial sector, strengthening the AML/CFT regime, and making decisive progress on asset recovery will be necessary to safeguard macro-financial stability.

“As the recovery takes hold, the policy mix will need to evolve to address Moldova’s urgent developmental objectives, including significant infrastructure gaps, and to accelerate income convergence with European peers without endangering debt sustainability. On the fiscal front, improving domestic revenue mobilization, increasing public spending efficiency, decisively addressing fiscal risks emanating from state-owned enterprises, and continuing efforts to improve budget quality and transparency are vital to improve fiscal outcomes and nurture more responsive and impactful fiscal policy. Continued engagement with developmental partners to leverage their expertise and secure needed concessional financing is needed.

“The authorities’ ambitious reforms center on addressing Moldova’s longstanding and widespread governance weaknesses and institutional vulnerabilities. The proposed measures—if appropriately sequenced and resolutely implemented—are expected to yield large medium-term gains, unlocking Moldova’s untapped economic potential and accelerating its income convergence with European peers. Robust reform efforts to strengthen the rule of law, reduce corruption, and embrace the independence of key institutions will be instrumental to improving the business environment, fostering competition and innovation, unlocking private investment, curbing brain drain, accelerating human capital accumulation, and increasing productivity.”

REPUBLIC OF MOLDOVA

December 3, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND REQUESTS FOR AN ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The 2016–20 ECF/EFF helped rehabilitate Moldova's banking sector, bolstering macro-financial stability. However, the COVID-19 pandemic, drought in 2020, and the ongoing surge in global energy prices, have slowed economic activity, intensified downside risks, and complicated policy making. While emergency financial assistance under a blended RCF/RFI (100 percent of quota) and SDR allocation (US$236 million) helped cushion the pandemic's impact, Moldova remains among the poorest countries in Europe with long-standing governance and structural weaknesses inhibiting income convergence.

Policy discussions and reform priorities. Discussions centered on three policy priorities: (i) sustaining the post-pandemic recovery with an appropriate policy mix, (ii) addressing pressing developmental needs, and (iii) advancing multi-year governance and institutional reforms to rebuild policy buffers and foster rapid, inclusive, and sustainable income growth. These reform priorities—which are closely intertwined with the authorities' comprehensive reforms under the requested program—focus on macro-critical governance and institutional reforms, in line with the Fund's governance framework:

- ***Fiscal governance*** through improving spending efficiency, strengthening revenue mobilization, and enhancing fiscal transparency;
- ***Financial sector governance*** through tightening financial oversight, supervision, and regulation as well as strengthening financial safety nets, inclusion, and the AML/CFT framework;
- ***Central bank independence*** and effectiveness of the inflation targeting regime;
- ***Rule of law and the anti-corruption framework*** through legislative reforms and strengthening of national institutions; and

- ***The regulatory framework*** through ambitious SOE and energy reforms to reduce fiscal risks, increase productivity, and improve the business environment.

Energy crisis. The large spike in imported gas prices exposed Moldova's vulnerability to regional risks. The authorities' transparent policy response to safeguard the energy security and address the immediate impacts on households and SMEs is commendable; but the unfolding energy crisis is complicating the policy formulation amidst heightened uncertainty.

Program. To support their efforts, and to assist with Moldova's protracted balance of payments needs, the authorities have requested 40-month arrangements under a blended Extended Fund Facility (EFF)/Extended Credit Facility (ECF) with cumulative access of SDR 400 million (232 percent of quota; of which SDR 133.3 million under the ECF and SDR 266.7 million under the EFF).

Risks. Risks to the new program are large given the fragile political setting, the deep-rooted vested interests opposing improvements in economic governance, and significant weaknesses in implementation capacity. Externally, downside risks to the global recovery and spillovers from geopolitical tensions could have negative spillovers for trade, capital, and remittance flows, and complicate prudent policymaking. The proposed prior actions and extensive financial and expert support from international partners will mitigate key upfront risks and signal commitment to ambitious structural reforms.

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

Discussions were held remotely during September 27–October 15, 2021. The mission discussed with Speaker Grosu, President Sandu, Prime Minister Gavrilița, Minister of Finance Budianschi, Governor of the National Bank of Moldova Armașu, Minister of Justice Litvinenco, Minister of Infrastructure Spinu, Minister of Labor Spatari, Minister of Health Nemerenco, Advisor to the President Negruța, and other senior officials and representatives of financial institutions, non-governmental organizations, diplomatic community, and international organizations. The mission team comprised Ruben Atoyan (Head), Rodgers Chawani (Resident Representative), Julia Otten, Amgad Hegazy, Fazurin Jamaludin (all EUR), Samir Jahan (FAD), Boaz Nandwa (SPR), Peter Lindner (MCM), and Kathleen Kao (LEG). Luc Dresse and Dries Cools (both OED) joined the discussions. Chasta Piatakovas and Samuel Romero Martinez (both EUR) and staff from the local office in Chişinău assisted the mission.

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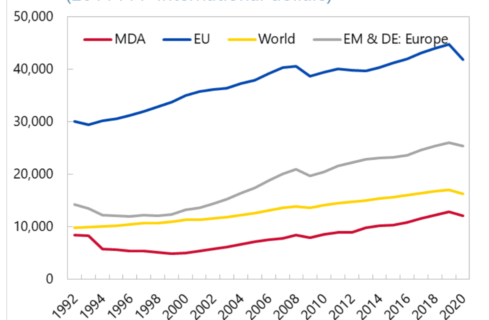
CONTEXT

1. **Moldova's previous ECF/EFF arrangements supported the rehabilitation of the banking sector and restored macro-financial stability.** Following the 2014 banking fraud, measures implemented under the 2016-20 program ensured transparent shareholder structures in systemically important banks, upgraded the banking resolution framework, and strengthened the National Bank of Moldova's (NBM) governance, regulatory, and supervisory frameworks. The program also succeeded in maintaining fiscal discipline and public debt sustainability.

2. **However, Moldova lags in achieving income convergence relative to peers, with the pandemic erasing some recent gains.** Public spending is inefficient and poorly targeted. Persistent under-execution of public investment worsens large infrastructure gaps. Regulation and supervision of the non-bank financial sector is weak. Private investment and productivity are constrained by an unfavorable business environment, lack of competition, weak investor protection, and lagging SOE and energy reforms. The economy remains excessively informal with a dominant share of low-productivity sectors. Macro-critical governance and institutional reforms have been long overdue, with rule-of-law and anti-corruption frameworks are ineffective. High emigration deters human capital accumulation and innovation. Furthermore, the pandemic has hit Moldova hard, while the policy response has been fragmented and poorly targeted.

GDP per capita
(2011 PPP International dollars)



Sources: IMF *WEO* and IMF staff calculations.

3. **Political volatility has delayed the launch of a new program but consolidation of power by reform-minded forces provides an opportunity to press ahead.** Following the July 2020 ECF/EFF staff-level program agreement, progress was made on prior actions but concerted attempts by vested interests to undermine recent financial sector reforms complicated engagement. The government resigned in December and the parliament approved several policy reversals that significantly undermined progress achieved under prior Fund-supported programs. This included repealing legislation that securitized government guarantees issued to the central bank, reducing the retirement age, and significantly weakening the asset declaration regime. The landslide victory in the July snap parliamentary elections of reform-minded forces, which campaigned on an anti-corruption platform, provides an opportunity to steer reforms while leveraging support from international partners.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. **The COVID-19 pandemic precipitated a sharp economic downturn last year that was reinforced by weak policy support.** Economic growth contracted by 7 percent as activity collapsed with the implementation of virus containment measures. Inflation dropped as lower demand and commodity prices more than offset upward pressures on food prices from the agricultural drought.

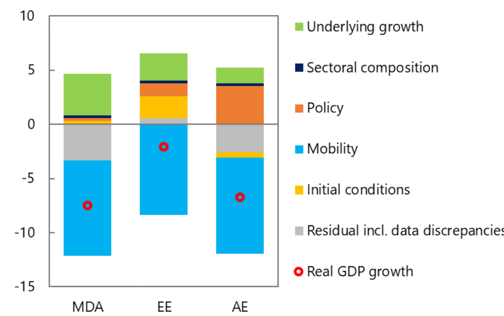
While remittances remained resilient, trade flows receded, and the current account deficit narrowed. Unemployment benefit recipients rose sharply in number. In April 2020, the IMF Executive Board approved US$235 million in emergency support for Moldova under the RCF/RFI. The authorities reacted promptly to the crisis at its inception, with monetary, macroprudential, and fiscal easing, but fiscal measures were under-executed (Box 1).

Box 1. Response to the Pandemic in 2020: Swift but Sub-Optimal

***Monetary, financial, and macroprudential policies*:** Monetary policy remained accommodative, with targeted temporary financial sector support. The NBM stepped up its FX interventions amid rising pressures in mid-March 2020, cut its base rate by a cumulative 485 basis points since 2019 through end-2020, and significantly reduced the MDL reserve requirement, supporting aggregate demand, liquidity provision, and local currency intermediation. It also provided temporary forbearance to banks regarding regulatory capital for rescheduled loans to individuals and SMEs. For non-bank financial institutions, guidance was issued to lower effective interest rates and institute loan payment deferrals.

***Fiscal policy*:** The 2020 general government deficit rose to 5.1 percent of GDP. This fell below the approved 8 percent of GDP, reflecting fragmented support and under-execution of measures to combat the pandemic, and external financing pressures. While three announced fiscal packages comprised ramped up public spending on health, business support, and social protection spending, the contribution of these policies to economic growth is estimated to be modest as the execution of measures was lower than initially expected due to the political stand-off, uncertainty over the availability of external financing, and PFM weaknesses
.

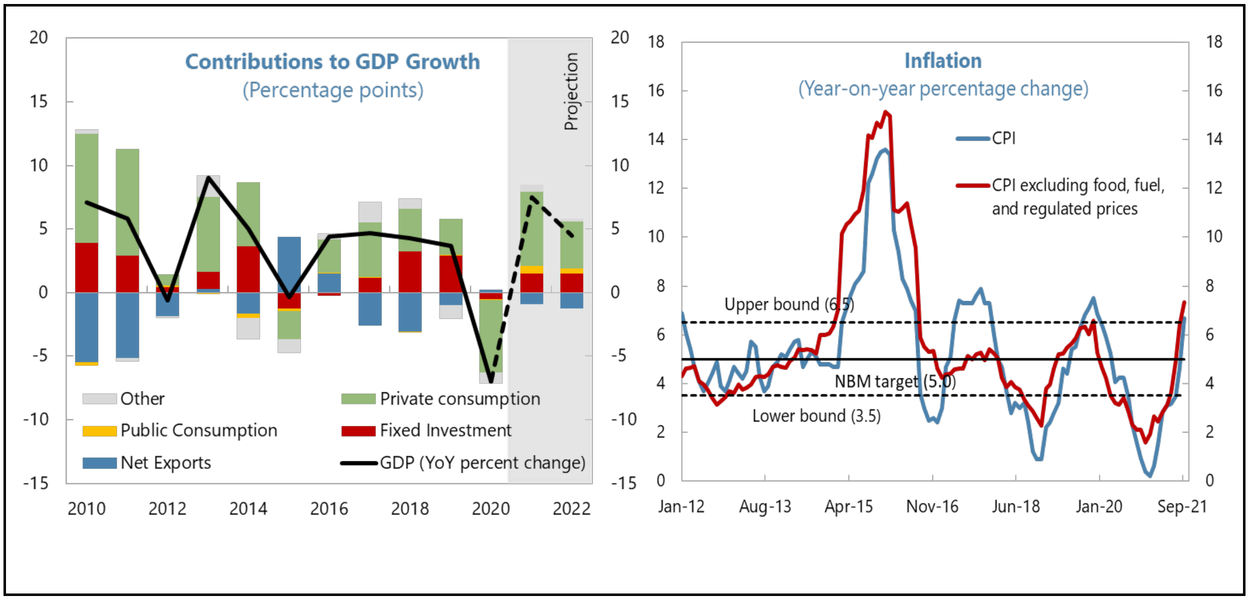
Real GDP Growth Decomposition, 2020
(Percentage points)



Sources: Haver Analytics; and IMF, *World Economic Outlook*.
Note: ISL and MNE excluded due to lack of data.

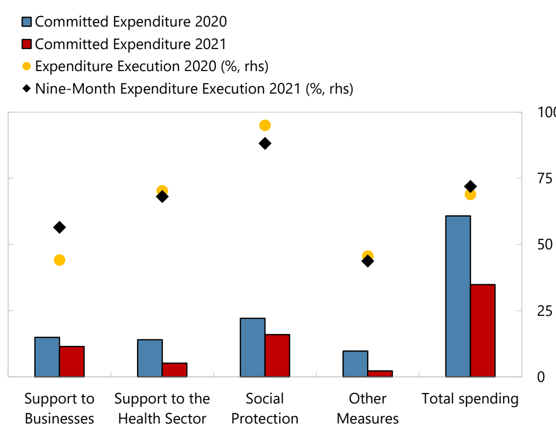
- In April/June 2020, the authorities legislated two supplementary budgets in response to the pandemic. These recognized significant revenues underperformance due to lower VAT, excises, and trade taxes (reflecting compressed consumption due to lockdown measures) as well as lower social contributions. To support the ***health sector***, resources were allocated to the Health Fund and regional hospitals for needed medical and protective equipment, and to raise wages for healthcare workers. To support ***businesses*** in distress, the authorities granted subsidies in the amount of wage-related taxes paid for furloughed employees during the national emergency; reimbursed social security contributions for business activity affected by the lockdown; supported the Agriculture Subsidy Fund; and introduced temporary tax holidays for business, income, and local taxes. To bolster ***social protection***, the coverage of the unemployment fund was expanded and unemployment benefits for current beneficiaries were raised; the coverage and benefit level of the Ajutor Social program was expanded; allocations to the Fund for the Social Support of the Population were increased; and transfers to the Social Fund increased to compensate for lower contributions.

- In September 2020, parliament adopted another supplementary budget with a general government deficit of 8.0 percent of GDP to provide space for measures already legislated through year-end, to allow automatic stabilizers to cushion the impact of the worsening macro-outlook. While this reduced budgetary allocations for infrastructure projects (to recognize implementation delays) and reprioritized non-priority spending (subsidies, goods and services, and other current spending), approved crisis measures were significantly under-executed due to inadequate cash management, lengthy procurement processes for crisis-related infrastructure spending, delays in disbursements of external funding, time-limiting of some crisis measures, and lower-than-expected local government needs.



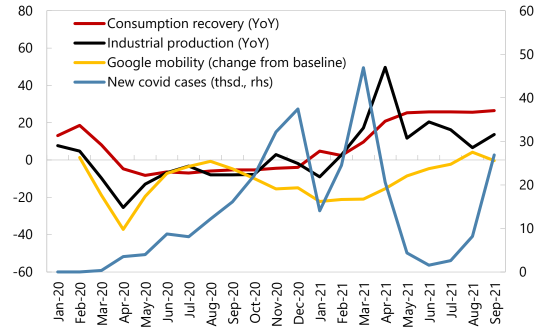
5. Fiscal policy in 2021 focused on supporting the recovery, warding-off social fallout, and addressing imminent risks from the energy crisis. In H1, budget execution in support of businesses and households was weaker than anticipated due to political volatility and uncertainties over external financing. However, revenue overperformance on the back of continued economic recovery; at the same time, the SDR allocation and a more stable political setting in the aftermath of elections helped ease budget constraints and led to improvements in spending execution, including on health, social assistance, and capital projects. In November, parliament adopted a supplementary budget that reduced the VAT rate for the hospitality sector for the duration of the health emergency, and further increased allocations for the health sector and unemployment support schemes. In addition, allocations were introduced to address the immediate fallout of the energy crisis (0.9 percent of GDP) via a rapid and transparent response to procure sufficient gas supplies and to partially shield the most vulnerable households and businesses against rising energy costs. Also, the minimum pension was increased to the subsistence level. The general government deficit is projected to reach 5.2 percent of GDP in 2021, subject to improved budget execution rates.

Spending on Crisis Measures, 2020-21
(Percent of GDP)



6. The economy is experiencing a recovery, but the outlook is clouded by significant vulnerabilities. A robust rebound in 2021H1 growth (over 11 percent, y-o-y) was driven by aggregate demand supported by high credit and wage growth as well as strong remittance inflows. While favorable high-frequency indicators point to continued recovery, the domestic impact of global turbulence in energy markets and a new infection wave due to Delta variant pose significant headwinds and heighten uncertainty. Staff's baseline incorporates the authorities' energy policy response.

Selected Monthly Indicators
(Percent change)



Source: NBS, Ministry of Finance, Google, John Hopkins University, IMF staff calculations.

- **Real GDP growth** is projected to rebound by 7.5 percent in 2021, driven by stronger than expected recovery in demand. Growth is projected to slow in 2022 to 4.5 percent due to negative effects of high energy costs on economic activity, before recovering thereafter to about 5.5 percent on average, supported by strong payoffs to medium-term growth from reforms that promote faster capital accumulation and productivity through improved business activity, closing of infrastructure gaps, and labor and human capital gains from reduced emigration.

- **Inflation** is projected to average around 4 percent this year, rising to slightly above 6 percent in 2022 on the back of a firming economic recovery and elevated commodity prices, before returning to the 5 percent target thereafter.

- **The current account deficit** will likely peak at around 11 percent of GDP in 2021, before gradually narrowing to below 8 percent of GDP over the medium term. Moldova's external position remains weak, but international reserves are adequate as a shock absorber. The external sector assessment (Annex III) suggests that the real effective exchange rate as of end-2020 is broadly in line with fundamentals and desirable policy settings.

- **Public debt** is projected to increase from 28 percent of GDP in 2019 to 37 percent of GDP in 2021 due to a significant increase pandemic-induced borrowing. With increased developmental spending, it is projected to continue increasing to a peak of 43 percent of GDP in 2024 before gradually declining. Moldova remains at low risk of debt distress (Annex II), providing space to absorb shocks. The PV of public debt-to-GDP, however, is sensitive to growth shocks.

- **COVID-19** infections, hospitalizations, and fatalities have picked up with increased mobility, triggering the state of emergency reinstitution. Vaccine hesitancy, however, remains high with less than 30 percent of the population fully inoculated.

7. **Downside risks remain significant amid heightened uncertainty (Annex I).** These include a more severe or protracted fallout from the global energy crisis, a slower recovery both domestically and abroad, and scarring of balance sheets from renewed unemployment and business closures in the event of new Delta variant-related infection waves gaining momentum amidst entrenched vaccine hesitancy. Moldova remains susceptible to spillovers from geopolitical tensions. Domestically, the re-emergence of political instability due to possible pushback from vested interests or reform fatigue could hurt confidence and limit external financing options. Repeated

political changes continue resulting in a significant bleeding of the operational expertise from key governmental bodies, further degrading Moldova's already weak implementation capacity. On the upside, new arrangements with the Fund aimed at addressing vulnerabilities would catalyze external financing, while reforms could yield large medium-term growth dividends.

Authorities' Views

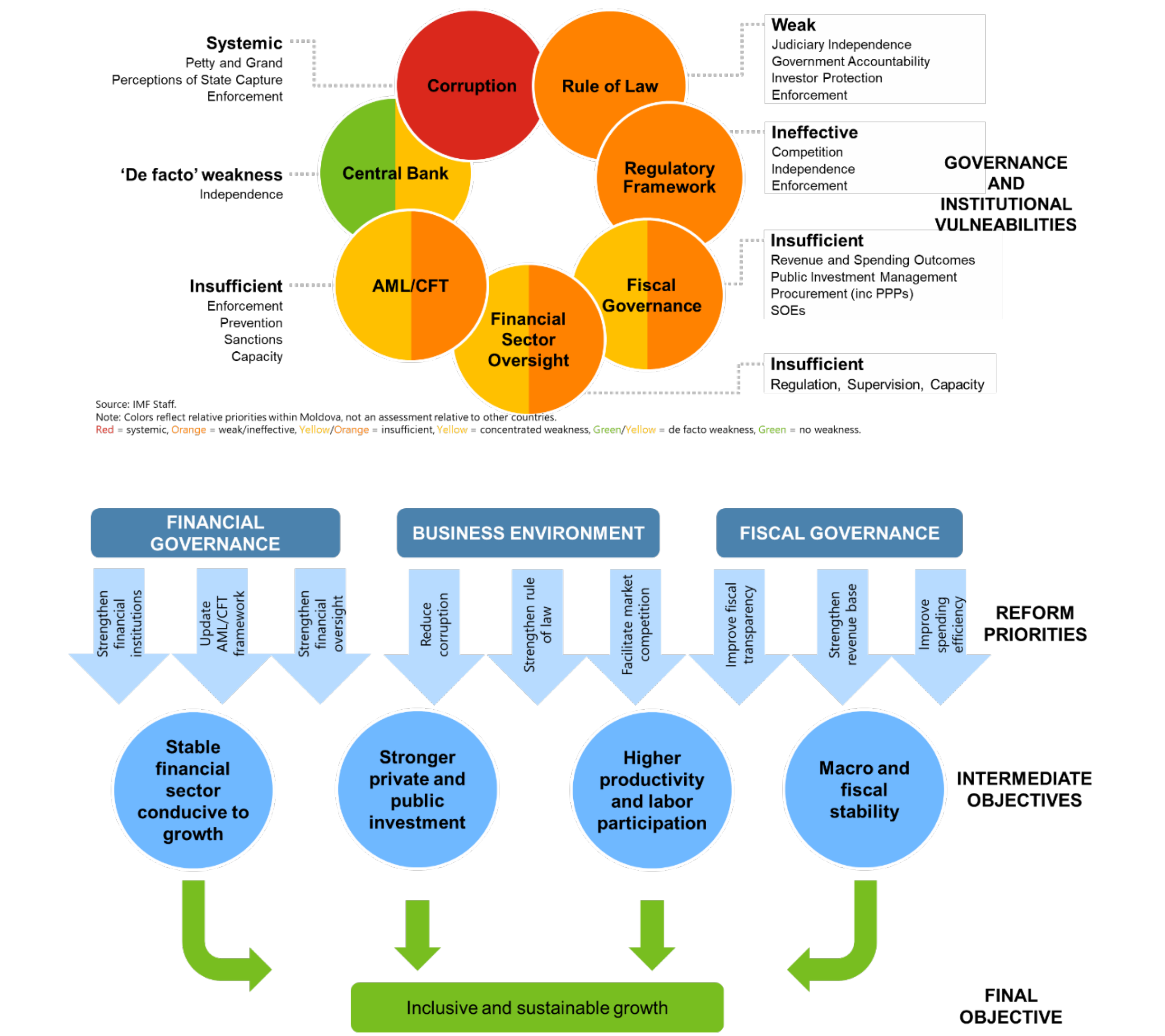
8. The authorities broadly agreed with staff's assessment of the outlook and risks. They pointed out upside risks to the real GDP growth forecast in 2021, including due to a strong agricultural harvest. They anticipated pressure on financing to build in early 2022 and highlighted that risks from a protracted pandemic could result in adverse scarring effects to the economy.

PROGRAM OBJECTIVES AND POLICIES

9. The program's objectives are to sustain the post-pandemic recovery, address pressing developmental needs, and strengthen Moldova's governance and institutional frameworks. The key policy challenge is to design a prudent macro-financial policy mix to mitigate the impact of the pandemic and pursue developmental objectives without endangering debt sustainability. Structural reforms—covering the seven areas identified in the Fund's 2018 Framework for Enhanced Engagement on Governance—will aim to address longstanding vulnerabilities to improve the business climate and strengthen fiscal and financial sector governance, ultimately fostering inclusive and sustainable growth to accelerate income convergence between Moldova and European peers.

10. Macroeconomic policies are carefully balanced to achieve program objectives. Near-term policies are designed to cushion the impacts of the pandemic and energy crisis and prevent severe economic disruptions. Monetary policy will remain tight in response to expected accelerating inflation. Fiscal policy will remain accommodative, leveraging on external financing in the face of upfront BOP pressures. As the recovery takes hold, and over the medium-term, the program's focus will shift to strengthening Moldova's growth trajectory. The macro-fiscal agenda will target improvements in revenue mobilization and efficiency in public spending, including reprioritizing current spending by containing the growth in the wage bill to maintain social transfers in support of the most vulnerable. In addition, expenditure switching from current towards capital spending is aimed at addressing significant infrastructure and developmental needs, while preserving fiscal discipline. Decisive implementation of reforms to address governance weaknesses and institutional vulnerabilities is expected to yield longer-term growth dividends through an improved business environment conducive to stronger competition, innovation, and private investment; curbing the brain drain; accelerating human capital accumulation; and increasing productivity.

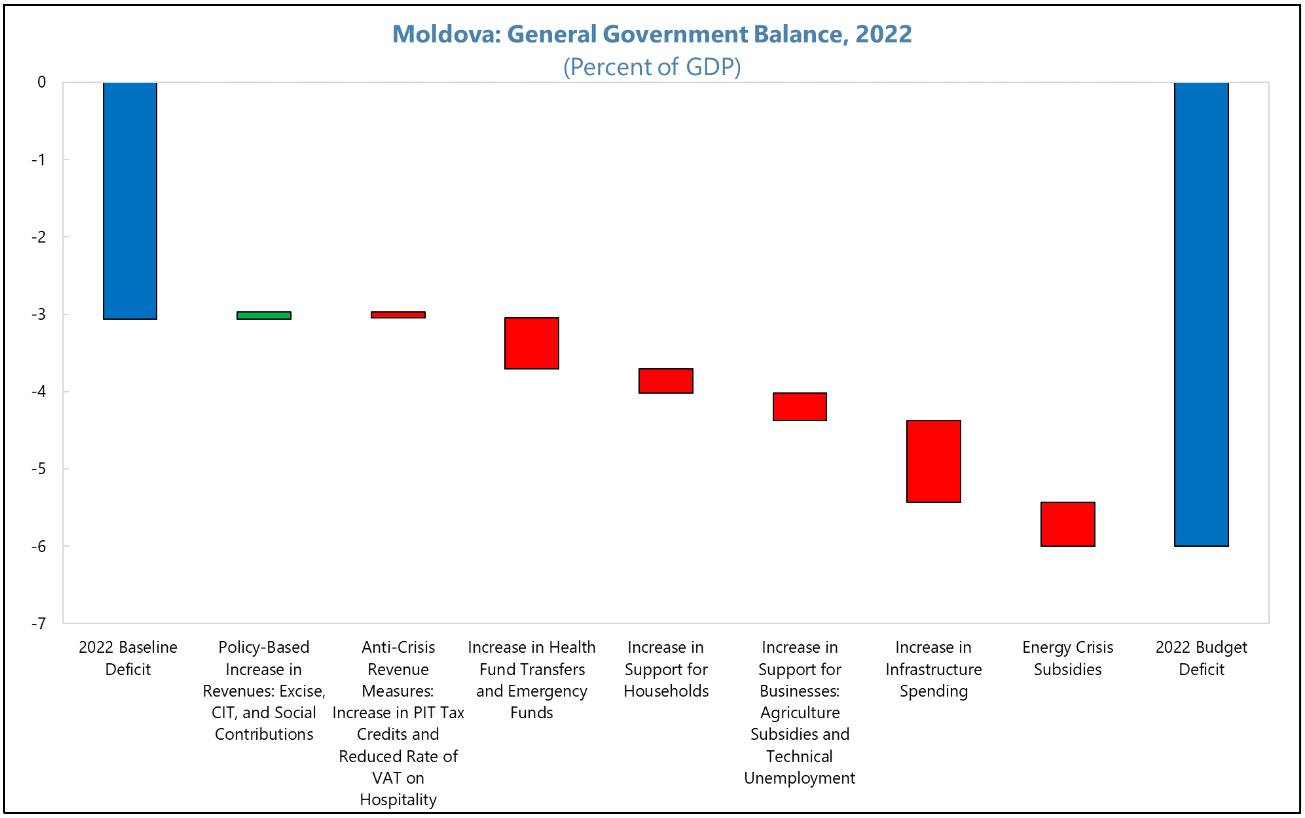
Moldova: Governance and Institutional Vulnerabilities, Reform Priorities, and Program Objectives



A. Policies to Sustain Recovery and Address Developmental Gaps

Fiscal Policy

11. Fiscal policy will remain accommodative to ensure an adequate response to the pandemic and sustain the recovery in 2022. In line with staff advice, the authorities approved the 2022 budget with a general government deficit of 6.0 percent of GDP (**prior action**). Targeted fiscal support measures include support for the health sector (0.3 percent of GDP), social protection (0.3 percent of GDP), and businesses (0.4 percent of GDP). To mitigate the impact of surging energy prices, the approved budget allocates 0.6 percent of GDP to the heating allowance for low-income households and a temporary targeted gas subsidy for households and businesses (see ¶38). The capital spending envelope was increased to support Moldova's large developmental needs.



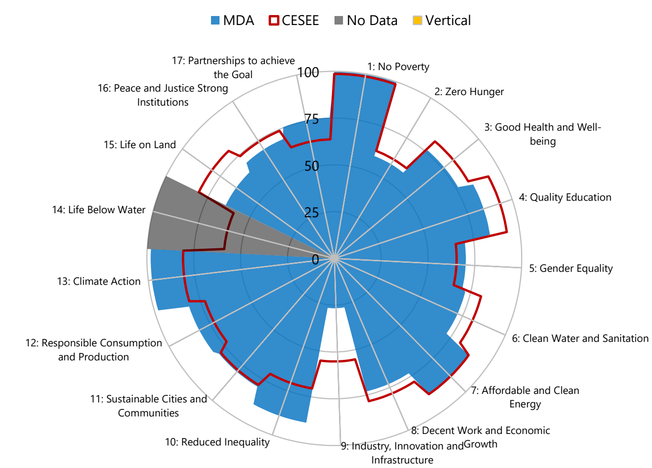
12. The medium-term fiscal stance aims to balance much-needed development spending with fiscal discipline and public debt sustainability. The medium-term fiscal strategy foresees a balance between mobilizing space for urgently needed growth-friendly developmental spending—to address large gaps in infrastructure, health, electricity, water, and education sectors relative to peers—and preserving debt sustainability (Box 2). Additional developmental spending is estimated to increase real GDP level by about 5 percent over the five-year projection period. Starting in 2023, the withdrawal of one-off pandemic-related measures and increased spending efficiency (1.8 percent of GDP) as well as streamlining of extensive tax expenditures (1.4 percent of GDP) would deliver fiscal consolidation under the program. The medium-term budget framework will target general government deficits of about 3½-4 percent of GDP in 2024-26, anchoring total public debt below 45 percent of GDP to maintain sufficient buffers against contingent liability risks and shocks. This objective, however, requires concerted efforts to contain non-essential current spending, and decisive reforms agreed under the program to mobilize domestic revenues, enhance spending efficiency, and strengthen fiscal governance and transparency.

13. Efforts were undertaken to strengthen fiscal transparency and procurement. In November 2020, the authorities amended secondary legislation on procurement to require provision and publication of beneficial owner information as part of the regular package of documents submitted for tenders. They published a report on pandemic-related spending for 2020, including beneficial owner entities contracting with the government. In June 2021, they also published an audit report by the Court of Accounts on the use of health resources to combat the pandemic in 2020. The authorities now make public the beneficial ownership information of all entities contracting with public authorities on the website of the Public Procurement Agency.

Box 2. Development and Fiscal Sustainability

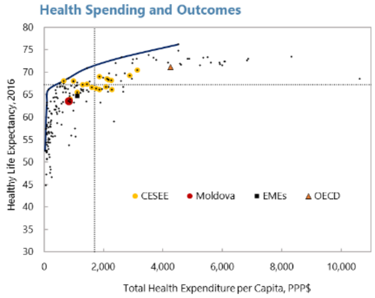
Moldova lags behind its peers along a range of development indicators as measured by the UN's Sustainable Development Goals. Gaps vis-à-vis CESEE countries—the most relevant peer group given strong social, geographic, and institutional links—are particularly large in areas of public infrastructure, water and sanitation, education, health, and justice institutions. Significant additional and efficient spending on these development areas is necessary for Moldova to speed up its convergence towards the living standards observed in regional peers. Specifically, staff estimates that additional spending of around 4½ percent of GDP a year would be required to close the outcome gaps across these development dimensions by 2030.

Moldova: Performance Against SDG 2020

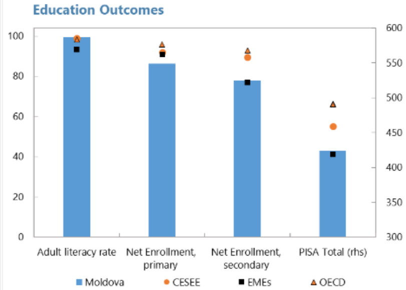


Note: The score signifies a country's position between the worst (0) and the best or target (100) outcomes.

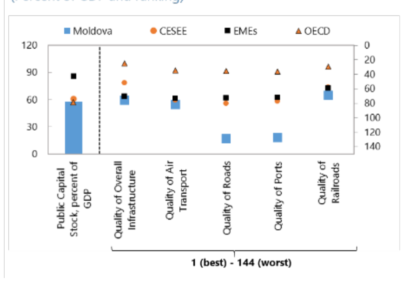
Health Spending and Outcomes



Education Outcomes

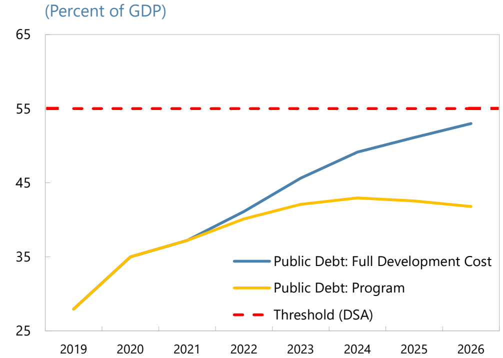


Capital Stock and Infrastructure Quality
(Percent of GDP and ranking)



Designing a policy mix that would help achieve development objectives in a sustainable way is the key. Staff's analysis suggests that closing the full gap with regional peers would set Moldova's public debt on an unsustainable trajectory and increase vulnerability to a wide range of shocks. Moreover, external concessional financing is unlikely to be sufficient for such a spending surge, while domestic banks' ability to absorb government debt is limited. Significant constraints on execution of capital projects are likely to pose additional headwinds. In staff's view, a more modest fiscal envelope of about 2.5 percent of GDP per year of additional development spending—combined with reforms to strengthen domestic revenue mobilization, spending efficiency, and governance—is likely to be financeable and would yield tangible income convergence benefits without exacerbating domestic and external imbalances or crowding out private investment. Revenue mobilization (1.4 and 3.0 percent of GDP by 2026 and over the long run, respectively) and spending efficiency gains (1.8 percent of GDP by 2026 linked to PFM and PIM reforms) are expected to support spending sustainability.

Evolution of Public Debt Under Development Spending Scenarios
(Percent of GDP)



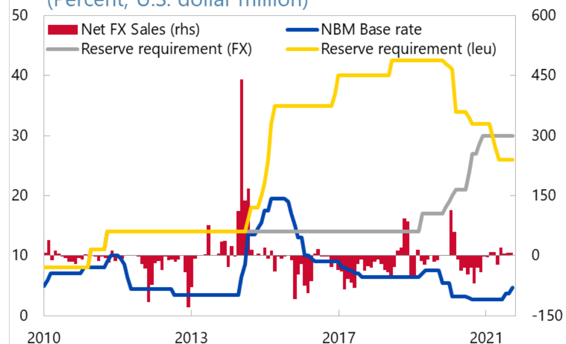
Authorities' Views

14. The authorities broadly concurred with staff's views on fiscal priorities and near-term fiscal risks. They cautioned against risks of higher-than-projected costs from surging energy prices, which are only partially mitigated by the new long-term gas supply agreement with Gazprom prescribing a new pricing formula that reduces energy cost volatility and uncertainty. They noted the importance of private investments as key to delivering a competitive, flexible, and high-wage economy, and underscored the need to enhance efforts in designing the appropriate policies to incentivize private capital. They acknowledged concerns over capacity constraints in the provision of social protection, and voiced support for policies that increase returns to formal employment, such as raising the minimum wage and personal tax credits.

Monetary and Financial Sector Policies

15. Monetary policy will remain guided by the inflation outlook. Beginning July 2021, the NBM shifted to a tightening cycle and hiked the base rate by a cumulative 285 basis points on account of a worsening inflation outlook. Given inflationary pressures arising from the stronger-than-expected domestic recovery and the impact of high international energy and food prices, the recent monetary policy tightening is appropriate and should keep inflation expectations anchored, facilitating a return of inflation towards the 5 percent target by end-2022. Staff's projections indicate that inflation would peak in early 2022 but would subside to a lower level from that point onward. However, additional supply-side pressures could emanate from adjustments of regulated prices and other utility tariffs to the gas tariff hikes. The NBM stands ready to tighten further, with the pace of tightening carefully calibrated to the inflation outlook and sources of inflation, to ensure that expectations remain firmly anchored.

Monetary Policy
(Percent, U.S. dollar million)



Source: National Bank of Moldova.

16. The NBM is determined to strengthen the credibility of its inflation-targeting (IT) regime and improve the monetary transmission mechanism.[1] Monetary transmission is impaired by a confluence of factors including underdeveloped financial markets, the NBM's substantial footprint in the FX market, capital account restrictions,[2] and the high share of imports and exposure to supply shocks. Effectiveness of monetary transmission has also been undermined by excess liquidity injected in the aftermath of the banking fraud and rapid growth of externally funded non-bank credit institutions. The NBM will strengthen the IT framework by (i) better coordinating the use of policies that affect monetary conditions with the NBM's policy rate; (ii) developing robust

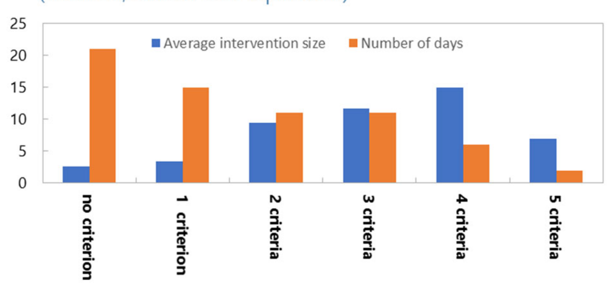
[1] See SIP on "Challenges of IT Implementation in LLIMICS: A Case Study of Moldova."

[2] An assessment of these measures as CFMs, and of their appropriateness under the *Institutional View (IV) on the Liberalization and Management of Capital Flows* is ongoing.

frameworks for forecasting liquidity to manage liquidity conditions; (iii) continuing to normalize reserve requirements (by widening the differential between MDL and FX reserve requirements) and increase the remuneration rate (by narrowing the differential with the policy and deposit facility rates) to reduce funding costs and encourage de-dollarization, in line with market liquidity conditions and financial stability considerations and accounting for the impact on monetary policy transmission; (iv) enhancing consistency between forecasts and policy decisions; and (v) strengthening public communication of monetary policy actions and forecasts.

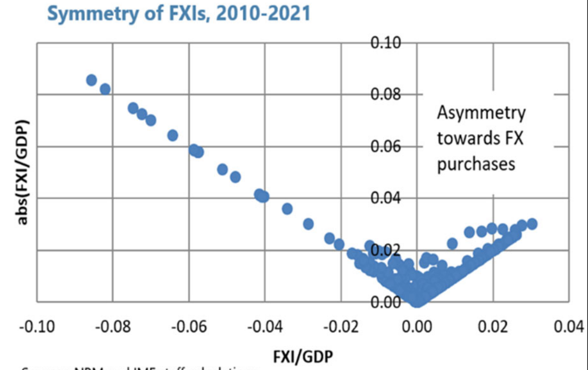
17. Moldova's vulnerability to external shocks requires a flexible exchange rate as an effective shock absorber. Since 2020, FX interventions (FXI) have been guided by a formal strategy that specifies intervention criteria to address excess exchange rate volatility and disorderly market conditions. The NBM has reduced its footprint in the FX market but appears to be asymmetrically favoring FX purchases, which complicates adjustment to external shocks, weakens monetary transmission, and undermines the credibility of the IT regime. Going forward, the NBM will (i) fully adhere to the FXI strategy, while continuing to reduce its footprint, (ii) review the intervention criteria underpinning the strategy with a view to gradually increasing ER flexibility; and (iii) proactively communicate objectives of the FXI strategy and foster market development to improve risk pricing and development of hedging instruments.

Number of Intervention Days When X Intervention Criteria Were Fulfilled and Average Intervention Size
(Number, Million USD equivalent)



Source: NBM and IMF staff calculations.
Note: Period under consideration is Jan 1 2020 - August 26 2021.

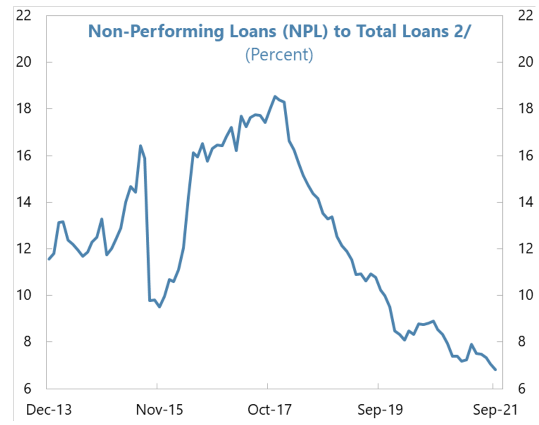
Symmetry of FXIs, 2010-2021



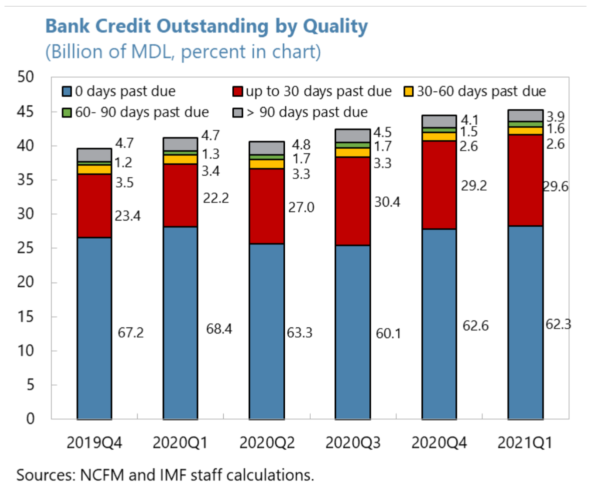
Sources: NBM and IMF staff calculations.
Note: Weekly data.

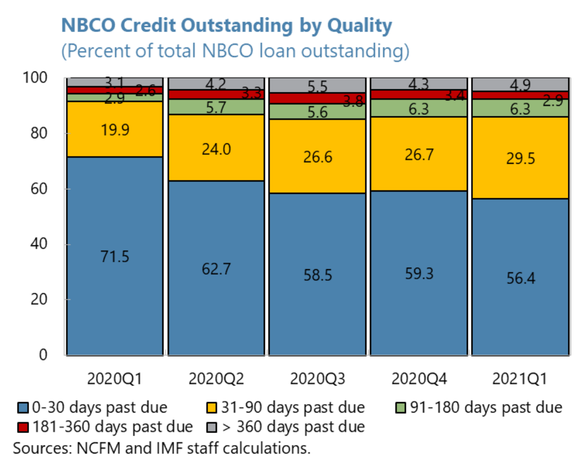
Authorities' Views

18. The NBM broadly agrees with staff's assessment, citing volatile commodity prices as the key challenge for monetary policy formulation. The NBM forecasts the headline inflation to be stronger than in staff's assessment, pointing to substantial second-round effects of rising food and fuel prices and faster closing of the output gap. The NBM agreed that the FXI strategy helped limit its posture to reducing excessive exchange rate volatility on account of disorderly market conditions, embracing gradual widening of the strategy's intervention criteria as means to further foster exchange rate flexibility.



19. Preserving financial stability, ensuring accurate asset quality recognition, and smoothing debt restructuring processes in the banking sector remain near-term priorities. The NBM's rules that guided loan deferments and provided for the forbearance of deferred loans from the regular NPL regime during the pandemic were wound up by end-2020. The prohibition in place during the pandemic on dividend payouts and share buybacks by banks has also lapsed. All banks exceed Basel III-compliant minimum required capital adequacy, liquidity, and leverage ratios, remain profitable, and continue reducing NPLs. With consumer and real estate lending exhibiting fast growth, however, supervisors should pay close attention to these two types of lending to avoid risk concentrations either on a bank-specific or systemic basis. Loan classification and reporting should be closely monitored, and in-person inspections focused on credit quality (including due to risks emanating from exposures to non-bank lending) should resume as soon as health conditions allow.





20. Worsening asset quality among nonbank credit organizations (NBCOs) necessitates urgent actions to identify insolvent entities and facilitate their exit. The sector grew rapidly prior to the pandemic and now has a sizable footprint in individual and SME credit markets, with close to 20 percent of all credit extended provided by NBCOs. Given its systemic importance and linkages via funding channels to the banking system, the NCFM needs to closely monitor the asset quality of NBCOs, including via on-site inspections and strengthened reporting requirements, to identify and resolve any distressed entities.

Authorities' Views

21. The authorities view consumer and real estate lending as areas that need to be closely supervised to check lending practices for their appropriateness. The NBM stressed, however, that the current regulatory and supervisory fragmentation complicates prudent risk monitoring and consistent policy response formulation.

B. Governance and Institutional Reforms to Foster Inclusive and Sustainable Growth

22. The program's success hinges on strengthening Moldova's governance and institutional frameworks. The authorities and staff agree that decisive efforts are needed to address widespread vulnerabilities and weaknesses in the areas of fiscal and central bank governance, financial sector oversight, market regulation, rule of law, and anti-corruption and anti-money laundering and combatting the financing of terrorism (AML/CFT) frameworks. As a strong upfront commitment, the authorities completed and published a Country Governance Diagnostic (CGD) assessment (Box 3) with a view to anchoring future governance reforms under the program in its recommendations. [3]

Box 3. Governance Diagnostics Summary Findings

Despite having legal and institutional frameworks largely in place, Moldova continues to suffer from significant corruption and governance vulnerabilities. These are pronounced in the areas of rule of law, AML/CFT, and SOEs. While progress has been made in reforming PFM, tax administration, central bank governance, and financial sector oversight, vulnerabilities remain.

The rule of law in Moldova is weak, with poor implementation of legal and regulatory frameworks. The justice system is widely recognized as being ineffective and susceptible to corruption and capture, with the main judicial actors perceived as lacking integrity and independence. These issues contributed to poor protection of rights, contract enforcement, and inconsistent application of the legal framework, deterring FDI and undermining private sector development.

The anti-corruption legal and institutional infrastructure is largely in place, but lacks effectiveness, and needs to be insulated from undue influence. Corruption investigations are focused on petty bribery and private citizens rather than on public officials, while some types of corruption are not adequately prosecuted. Sanctioning in corruption cases appears lenient with wide application of fines and reduced/suspended sentencing. Criminal enforcement efforts need to be better targeted at high-level corruption with the application of dissuasive sanctions.

The AML/CFT regime, while strong in some areas, is still not sufficiently used to support anti-corruption efforts. Understanding of ML risks associated with corruption and application of preventive measures (e.g., identifying BOs and PEPs) are still inadequate. AML/CFT tools could also be better leveraged to support criminal enforcement and asset recovery efforts.

The institutional framework for SOEs appears fragmented, prone to sudden changes, and conducive to blurring of institutional responsibilities. The boards of SOEs suffer from heavy government representation while efficient management of state assets remains a grave concern. Recommendations

[3] IMF Country Report No. 21/167.

Box 3. Governance Diagnostics Summary Findings (concluded)

include the development of a triage methodology that justifies state ownership and state divestures along with measures to spur board and management professionalism.

Regarding PFM, controls and transparency are strong for main budget spending, but less so for spending outside the "main framework". Recommendations include establishing a framework for transparency of funds, a framework covering projects that fall outside the capital investment framework, monitoring of leasing of Local Public Authorities' lands, systemic monitoring of procurement, coverage and linkage of IT systems, and strengthening internal audits.

The State Tax Service has made good progress in reducing corruption, but perceptions of corruption remain. There is a need to change the law on appointing the STS Director, improve corruption risk governance, HR procedures, data security and monitoring of tax auditors, and postpone implementation of changes to grant the STS criminal investigation powers until robust procedures and sufficient integrity-vetted and well-trained investigators are in place.

The IMF safeguards assessment found that while the NBM's governance structure with strong independent oversight is broadly appropriate, attempts to dent the NBM's autonomy have a pervasive impact on the overall system of internal controls. Amendments to the NBM Law, which is broadly aligned with best practices, are needed to strengthen the NBM's independence, improve its governance, and safeguard the operational independence of the supervisory function.

The legislative and regulatory frameworks are largely in place for financial oversight, but amendments are needed to support NBM governance and independence. Progress has been made in reducing banks' related party exposures. However, implementation of the new supervisory standards overseeing corporate governance practices in banks is weak as the transition from a compliance to forward-looking risk-based supervision is hindered by consistent challenges to the use of professional judgement of supervisory and enforcement actions.

Fiscal Governance

Strengthening Revenue Mobilization

23. Tax policy and tax and customs administration reforms are priorities. Specifically, the authorities will advance several reforms:

- ***Publish a comprehensive tax expenditure analysis of VAT and income taxes*** (**end-June 2022 SB**) to identify tax relief provisions to be phased out to support fiscal consolidation and eliminate tax system inefficiencies. They also plan to institutionalize tax expenditure reviews as part of the budgetary process.

- ***Strengthen tax administration*** to improve tax efficiency and widen the tax base by improving the organizational structure and capacity of the State Tax Service (STS), including by operationalizing the integrated taxpayer register (**end-June 2022 SB**), strengthening the STS's capacity to investigate and refer tax crime cases for prosecution, launching the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes, and introducing a General Anti-Avoidance Rule provision in the tax code.

- ***Continue phasing out of the favorable treatment of carbon emissions*** through annual adjustments of road fuel excises and reviewing the energy sector taxation regime.

- ***Advance customs reforms*** to reduce revenue leakages and smuggling by aligning customs legislation and regulations with EU directives and ratifying the WHO Protocol to Eliminate Illicit Trade in Tobacco Products.

- ***Leverage the AML/CFT regime to strengthen tax compliance***, including by identifying beneficiary owners of entities and accounts to enhance corporate transparency, facilitate detection and enforcement of tax offences, and trigger tax controls.

Improving Budget Quality and Fiscal Transparency

24. Transparent and inclusive budgeting is vital to improve fiscal outcomes and nurture more responsive and impactful fiscal policy. Towards this objective and in consultation with staff, the authorities plan to (i) institutionalize spending reviews to identify improvements in spending efficiency and cost effectiveness in key sectors (education, agriculture, and health); (ii) review the fiscal responsibility framework with a view to reducing the procyclicality of the deficit rule, limiting escape clauses, and strengthening fiscal oversight and budget transparency; (iii) strengthen public procurement and transparency by implementing a new e-procurement system to cover all public procurements and harmonizing the national regulatory framework with the Acquis Communautaire; and (iv) enhance management and disclosure of fiscal risks by broadening the coverage of PPPs, SOEs, government guarantees, and contingent liabilities in the fiscal risk statement. They also plan to strengthen debt and cash management to broaden debt instruments, deepen the securities market, further develop the primary dealer system, and develop a new platform for retail investors.

Making Spending Efficient, Sustainable, and Growth-Friendly

25. Reforms to strengthen the efficiency of public services will help improve outcomes, contain current spending, and support growth and equity objectives. The authorities will advance a number of reforms under the program:

- ***Strengthening the public investment management (PIM) framework*** to enhance the execution and quality of public investment and close large infrastructure gaps. This includes strengthening the planning, allocation, and implementation stages of the PIM cycle—in line with FAD TA recommendations—by (i) publishing a report on the execution of investment projects undertaken by extrabudgetary funds in the previous fiscal year (**end-March 2022 SB)**, with a view to update this report annually; and (ii) amending legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and extrabudgetary funds (**end-September 2022 SB)**.

- ***Strengthening the unitary pay system*** in the budgetary sector to improve the wage-compression ratio, strengthen the budgetary process, and address critical staffing needs. Towards this objective, the authorities plan to (i) launch a fully operational comprehensive IT-based staff registry to cover all central government employees (**end-June 2022 SB**); and (ii) develop a time-bound plan to further consolidate wage-related reference values.

- ***Ensuring the sustainability of the pension system*** by (i) reversing the previous reductions in retirement ages for men and women (**prior action**), and (ii) in consultation with the World Bank, modifying the indexation formula and broadening the contribution base to address sustainability risks and ensure viable replacement ratios.

- ***Enhancing social assistance programs***, in consultation with the World Bank, to increase allocations and improve targeting of social assistance programs by (i) shifting resources from categorical to means-tested payments, (ii) increasing the coefficients given to the most vulnerable members of recipient families, and (iii) making remote application to means-tested programs operational.

- ***Scaling up investment in disaster and climate risk mitigation and response*** to address vulnerabilities from natural disasters facing Moldova's systemically important agricultural sector.

- ***Strengthening policies supporting gender equality*** in collaboration with the U.N. and other stakeholders.

Authorities' Views

26. The authorities broadly agreed on the importance of *strengthening the tax system* to tackle corruption, and on improving budgetary and fiscal risk management processes. They agreed that streamlining *tax expenditures* is a priority but raised concerns related to the business environment, capacity to invest, and social sensitivities of some tax expenditures. While they broadly support staff's recommendation to rely on expenditure measures to support businesses, they raised weak institutional capacity as a major constraint. The authorities also agreed that the current PIM processes hindered much needed investment in infrastructure, and plan to take steps to address this by implementing PIMA recommendations and cataloging all ongoing and earmarked investment projects. On *wage bill* reforms, the authorities understood staff concerns, but stressed that low wages were behind government-wide capacity constraints and argued in favor of a mechanism for wage setting that attracts talent to priority positions. Regarding the *pension system*, the authorities recognized sustainability concerns but highlighted that widespread old-age poverty and unfavorable demographic trends leave little choice but continue supporting the system with budgetary transfers. In this context, they also acknowledged the need to increase allocations to well-targeted *social assistance* programs.

Financial Governance

27. Safeguarding NBM independence and strengthening its governance are essential for achieving program objectives. Amendments to the NBM Law enacted between 2014–16 strengthened key legal safeguards, including the autonomy, governance framework, and transparency and accountably practices of the NBM. However, the NBM has been subject to political attempts to weaken its autonomy via legislative and executive channels.[4] Key political decisionmakers have re-iterated their commitment to safeguarding the NBM's independence so that it can effectively execute its functions and deliver on its mandate. Towards this objective, the Executive Board of the NBM has been strengthened by filling three vacant deputy governor positions in line with professional, integrity, and procedural requirements of the NBM Law (**prior action**). In addition, legal provisions will be enacted to strengthen the NBM's institutional autonomy (**end-June 2022 SB**), including by (i) strengthening the procedures and criteria for the appointment, resignation and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) clarifying the managerial responsibilities for the governor and the executive board, in line with safeguards recommendations.

28. Progress has been made in strengthening the integrity and finality of NBM's regulatory and supervisory decisions. In consultation with staff, the authorities have enacted—as a **prior action**—a legislative package of amendments in line with international good practices:

- ***The shareholder removal framework*** was strengthened to preclude that interim measures in legal proceedings can impede supervisory measures applied to unfit shareholders.
- ***The monetary compensation regime***—governing appropriate compensation for proven damages to shareholders—was introduced to determine the value of damages for justified claims. These enhancements aim at deterring claims made in bad faith and require mandatory appraisal of the value of shares by an internationally reputable audit company.
- ***Additional safeguards to NBM autonomy and accountability*** were introduced by clarifying the standard for the liability of NBM officials to strengthen their legal protection against lawsuits, and by detailing rules for the legal review of supervisory decisions to ensure appropriate deference to NBM administrative discretion and professional judgement.

29. Progress achieved in the process of the removal of shareholders that do not fulfill the fitness and probity criteria must be protected. The authorities are determined to bring perpetrators of the fraud to justice through an independent and comprehensive investigation, prosecution, and judicial process. In this context, staff stressed financial stability risks arising from legal proceedings against banks as legal entities. To mitigate risks, the authorities are strengthening crisis management arrangements by complementing discussions on financial stability and fiscal risks in the banking system at the level of the National Committee for Financial Stability (NCFS) with also considering these risks at the level of the Supreme Security Council. With staff's support, they prepared—and will regularly update and discuss in the NCFS—comprehensive contingency plans to (i) ensure that all provisions and capital charges applied to banks due to pending legal decisions are in line with IFRS and NBM regulations; (ii) require credible and time-bound capital restoration plans in cases where capital falls below prudential limits alongside other supervisory corrective actions;

[4] In December 2020, parliament annulled the law on the issuance of government bonds deriving from state guarantees, although the Constitutional Court subsequently ruled this annulment unconstitutional, thereby preserving the adequacy of the NBM capital.

and (iii) if necessary, implement resolution actions identified by competent authorities to preserve financial stability in line with the Bank Recovery and Resolution Law (BRRL).

30. Efforts should continue to ensure transparency of shareholders and beneficial owners and to complete fit and proper ownership and control in one non-systemic bank. Based on the strengthened framework for the finality of supervisory decisions, the NBM will take all necessary steps available to it through the shareholder removal legal framework to complete the transfer of this bank to fit-and-proper ownership and control and ensure its proper corporate governance.

31. The NBM will strengthen financial sector supervision, including by bolstering financial crisis management and macroprudential frameworks in line with FSSR recommendations (Box 4). The institutional arrangements for financial stability and regular monitoring of systemic risk are all in place but results of solvency and liquidity stress tests indicate scope for improvements. The NBM plans to prepare a targeted review of the BRRL and the relevant secondary legislation, including to strengthen the MREL requirement, the conditions of access to the resolution fund, and the participation of the DGF in the financing of the resolution measures. In addition, a comprehensive review of the bank liquidation framework will be conducted with a view to strengthen liquidation procedures. Additional staff will need to be allocated to the Financial Stability department to enhance monitoring of systemic risks. To close gaps in the macroprudential framework, the authorities plan to: (i) amend the NBM Law to provide an explicit legal mandate for financial stability; (ii) strengthen NBM's macroprudential toolkit to introduce caps on loan-to-value (LTV) and debt-service-to-income (DSTI) ratios for financial institutions; and (iii) update the macro-solvency and liquidity stress testing framework. Relevant legislation will also be amended to ensure that NBM's supervisory work is conducted without being curtailed by inappropriate deadlines or other impediments. Most of these initiatives will be supported by the multi-year FSSR follow up TA project.

Box 4. FSSR Summary Findings

Moldova made substantial progress in enhancing financial sector oversight, but significant gaps remain while planned reorganization of supervisory responsibilities poses challenges. The NBM is close to completing banking sector reforms but there is scope to develop supervision further. Work on the insurance sector should be intensified to consolidate progress and address remaining weaknesses. The regulation of the savings and credit associations and non-bank credit organizations has also been developed, although more resources are required as well as increased emphasis on business conduct. Preparations for the transfer of regulatory responsibilities to the NBM in mid-2023 need to be accelerated based on increased cooperation between the NBM and NCFM.

The institutional arrangements for financial stability and monitoring of systemic risk are broadly appropriate, but solvency and liquidity stress tests need to be updated. Remaining gaps in the macroprudential framework—such as granting the NBM with an explicit legal mandate for financial stability and macroprudential policy, increasing resources for and visibility of financial stability surveillance, and implementing properly calibrated borrower-based macroprudential tools—need to be closed. Systemic risk monitoring tools should be further developed, and stress testing framework needs improvements to be in line with best practices.

Box 4. FSSR Summary Findings (concluded)

The crisis management and financial safety net frameworks also needs to be strengthened. The remaining gaps relate to bank resolution, crisis preparedness, and inter-agency cooperation. Amendments to the law on resolution and/or secondary legislation are also needed to adapt it to the particularities of the Moldovan banking system.

The authorities have worked on initiatives to promote different dimensions of financial inclusion (FI), such as financial literacy and payments, but more remains to be done. FI has not been addressed by an overarching national strategy, nor is there an inter-agency coordination mechanism. FI in Moldova would benefit from the development of inclusive financial products, digital and electronic finance, greater leverage of remittances for provision of other financial products. The legal and regulatory framework for financial consumer protection is fragmented and needs material reforms. Greater efforts are needed to develop and implement an overarching strategy for financial education.

Moldova's capital market is underdeveloped, insufficiently contributing to financing, risk management, and investment needs of the real economy. A comprehensive capital market development strategy is needed to bolster capital markets, with early efforts concentrated on strengthening the institutional framework and encouraging trading of more financial instruments.

32. **Further steps will be taken to bolster financial safety nets.** Progress has been achieved in strengthening the Deposit Guarantee Fund, Emergency Liquidity Assistance in support of solvent banks, and crisis-preparedness and management frameworks. The authorities plan to enhance the DGF's advance preparations for the reimbursement of deposits, including by conducting stress tests for both the DGF and banks. In addition, strengthening the resolution preparedness of the NBM for the implementation of the Bridge Bank Tool and Bail-in tool, including preparation of operational plans, and bolstering inter-agency cooperation, will be important. In line with IMF TA recommendations, secondary ELA legislation will be approved to enhance rules for collateral eligibility, risk controls, and internal procedures (**end-June 2022 SB**).

33. **The regulatory and supervisory frameworks for the non-bank financial sector need to be bolstered**. The sector has grown to a sizable footprint (5 percent of GDP) in individual and SME credit markets, and the rapid buildup of vulnerabilities and interlinkages with the banking system call for a stronger and more integrated financial market architecture. In consultation with staff and leveraging the NBM's supervisory expertise gained from rehabilitating the banking sector, relevant legislation was amended to allow for the transfer of regulatory and supervisory responsibilities for oversight of non-bank credit organizations, savings and lending associations, and insurance companies to the NBM effective July 1, 2023 (**prior action**). A new executive board for the NCFM was appointed with a view to enhancing oversight of the non-bank financial sector, managing the transfer of responsibilities, and facilitating capital market development. The authorities also plan to strengthen the law on non-bank credit institutions to include provisions for due diligence on debtors' repayment capacity and collateralization levels.

34. **Long-overdue reforms in the insurance sector need to be prioritized.** The authorities initiated a comprehensive review of the legislative framework governing the sector and adopted a new insurance law and regulations consistent with IAIS insurance core principles. However, supervisory decisions continue to be challenged in courts and further efforts are needed to

safeguard the interests of the insured. Building on the support of the World Bank, the following laws will be approved: (i) Law 186 to safeguard the NCFMs autonomy and ensure market discipline; (ii) Law on Insurance and Reinsurance activity establishing new requirements for capital compliance, corporate governance, and risk management; and (iii) Law on Motor Third Party Liability Insurance. The authorities will finalize the comprehensive solvency assessment report by a reputable auditing firm for all insurers issuing green cards (**end-March 2022 SB**) and implement resolution strategies for all insolvent insurers.

35. Moldova needs an overarching National Financial Inclusion Strategy (NFIS) to strengthen financial inclusion and capital market development. Promoting the provision of affordable financial products and a comprehensive financial education plan, and further developing digital finance—including to improve the efficiency and cost of growing remittances—are important. The legal and regulatory framework for financial consumer protection is fragmented and needs reforms to guarantee effective protection. In line with the FSSR recommendations, the authorities will: (i) develop an overarching NFIS and set up an inter-agency body with the mandate of developing, implementing, and monitoring the NFIS; (ii) implement targeted strategies to develop inclusive financial products (e.g., basic deposit accounts, microinsurance, digital payments, and electronic remittances); and (iii) launch a comprehensive review of the regulatory framework for consumer financial protection and education.[5]

36. Further efforts are needed to strengthen the AML/CFT regime. Illicit flows stemming from a large cash economy, domestic corruption, financial crimes, and tax offences pose significant money laundering and terrorism financing (ML/TF) risks. The authorities are addressing vulnerabilities identified in the 2019 MONEYVAL assessment, including by strengthening the AML/CFT framework and the supervisory capacity. The Financial Intelligence Unit has been designated as the AML/CFT supervisor of the real estate sector. The NBM has rolled out its newly developed risk-based approach to AML/CFT supervision of the financial sector. It has conducted targeted and thematic inspections on previously identified areas of weaknesses and identified deficiencies in due diligence related to politically exposed persons (PEPs), beneficial ownership, and sanctions screening. Further efforts are needed to improve preventive measures in these areas. Effective, proportionate, and dissuasive sanctions should be imposed on banks that fail to comply with their AML/CFT obligations. Given the recent transition from a rule-based to a risk-based system of reporting, the authorities should conduct a review of the quality of suspicious transactions reports. The authorities intend to address ML/FT risks arising from the informal economy, including by developing a regulatory framework to diminish the cash economy. The authorities should also ensure that they understand the ML/TF risks arising from legal entities.

Authorities' Views

37. The authorities agreed with the gist of staff's recommendations. They stressed that near term policy priorities include smooth implementation of the transfer of non-bank financial sector supervision to the NBM and comprehensive insurance sector reforms, coupled with continued efforts to bolster financial stability and systemic risk monitoring, solvency and liquidity stress testing, and crisis management and financial safety net frameworks.

[5] See SIP on "NBCOs and Financial Inclusion: Challenges and Opportunities".

Business Environment and Market Competition

SOE and Energy Sector Reforms

38. **Comprehensive reforms in the SOE sector are urgently needed**. Moldova's large SOE sector—comprising about 900 companies—relies on extensive government support, poses fiscal risks, and undermines competition, productivity, and private investment.[6] The sector suffers from weak governance, poor oversight, noncommercial mandates, and weak capacity and independence of supervisory boards, and heightening corruption vulnerabilities. Based on available data, the nexus between SOEs and the banking sector appears to be limited, with the latter primarily serving as the intermediary between the government and the SOEs. To enhance oversight capacity and risk management, the authorities will require all SOEs at the central government level to submit quarterly financial statements to the Public Property Agency (**end-March 2022 SB**), followed by a comprehensive assessment of the financial position of all SOEs. This analysis will inform the development and adoption of a clear state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization or liquidation, alongside plans to strengthen their governance structures (**end-September 2022 SB**). Going forward, the fiscal and financial monitoring of SOEs will be expanded to the local government level.

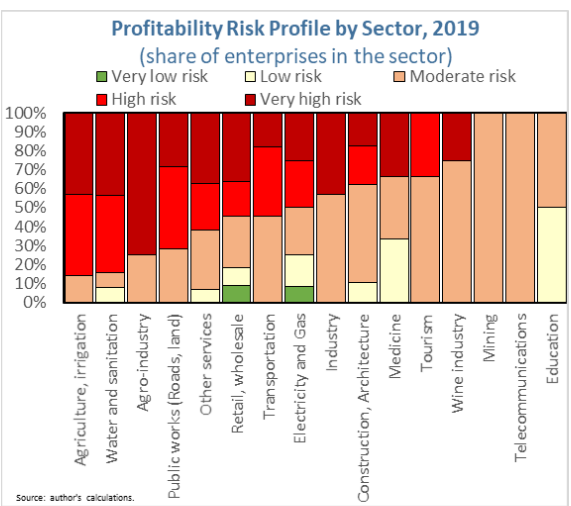
Interlinkages between SOE and Public Sectors

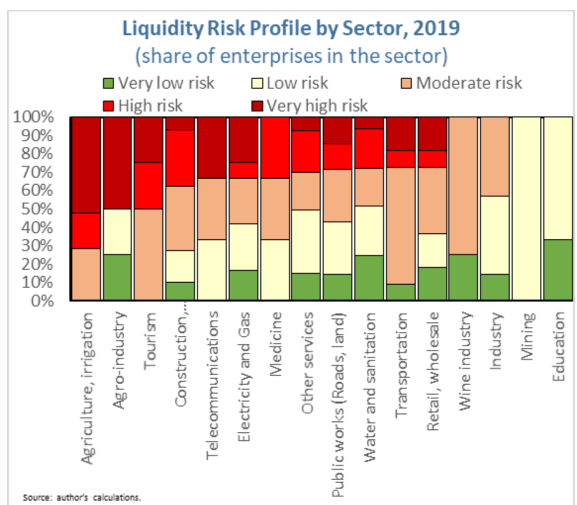
	2018	2019	2020
	(Percent of GDP)		
Transfers from the budget to SOEs 1/	**0.5**	**0.3**	**0.8**
Subsidies	0.2	0.1	0.1
On-lent external loans to finance projects	0.2	0.1	0.5
State guarantees 2/	0.0	0.0	0.0
Contribution to SOEs' share capital	0.1	0.0	0.3
Outstanding debt stock of SOEs	**7.3**	...	...
Outstanding arrears of SOEs	**3.3**	...	...

Source: Moldovan authorities and IMF staff calculations.

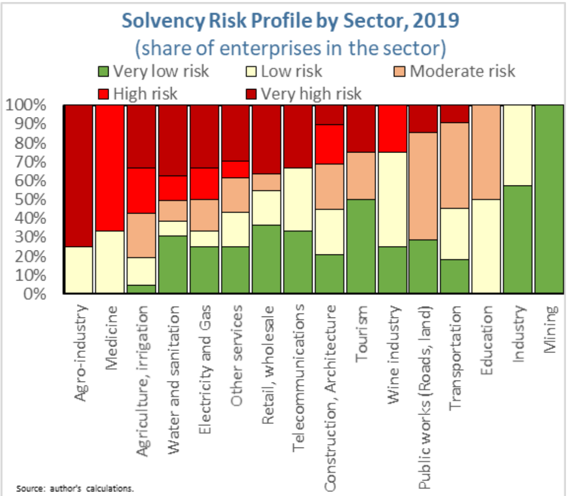
1/ Budget payments related to state-owned enterprises and commercial companies with full or majority state capital

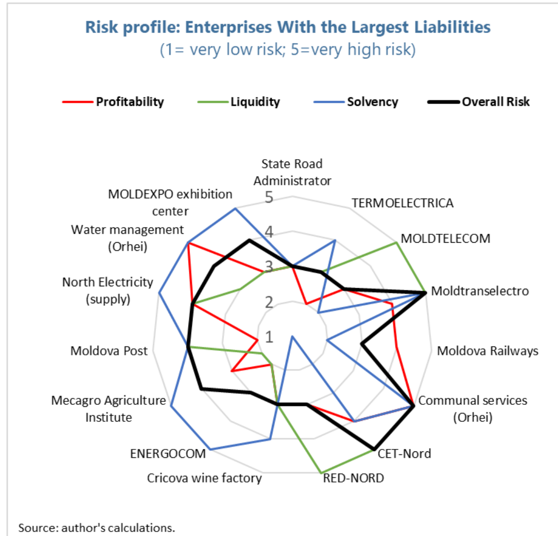
2/ There are no newly-issued state guarantees in recent years. Guarantees that were issued in the past (1990s) continue to be repaid to the budget.

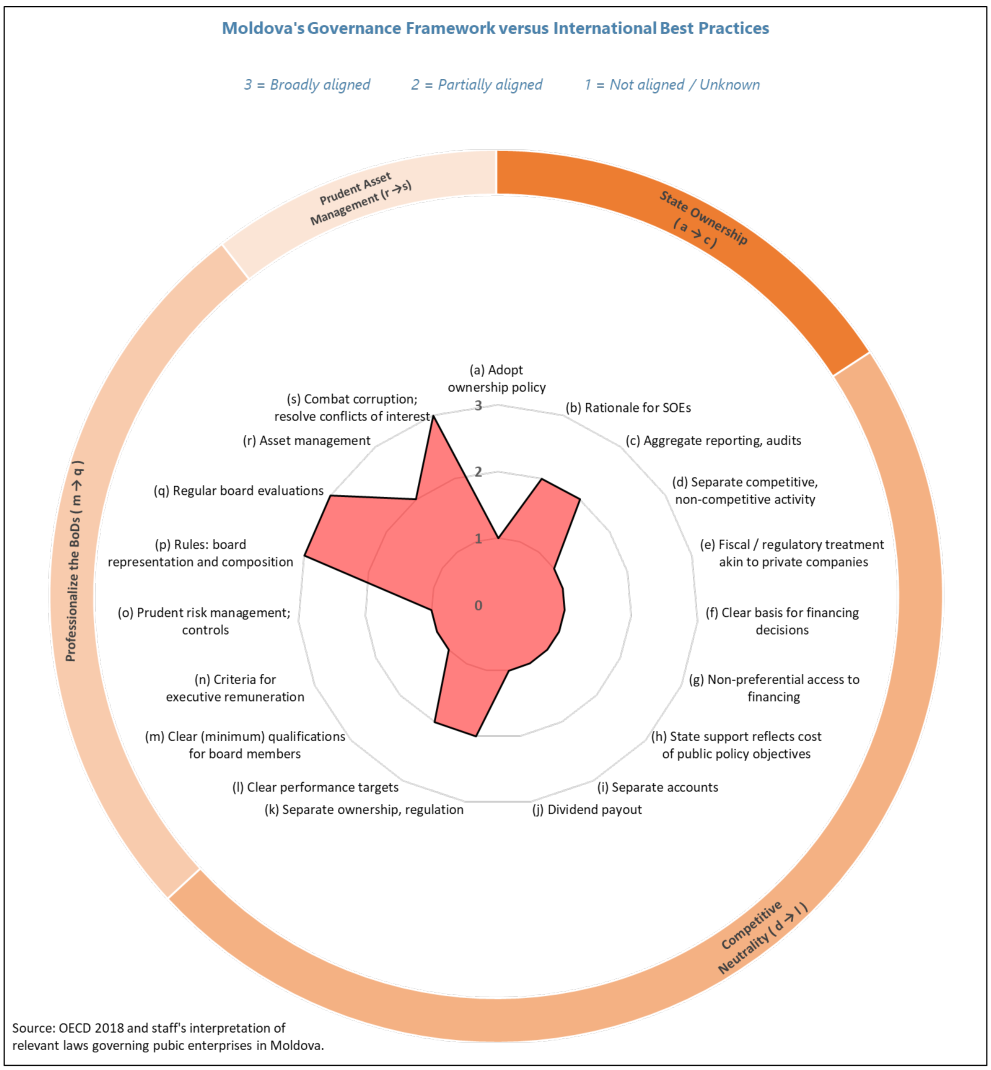




[6] See SIP on "The Nexus Between Public Enterprise Governance, Financial Performance, and Macroeconomic Vulnerabilities: An Application to Moldova."


Solvency Risk Profile by Sector, 2019
(share of enterprises in the sector)
Very low risk
Low risk
Moderate risk
High risk
Very high risk
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Agro-industry
Medicine
Agriculture, irrigation
Water and sanitation
Electricity and Gas
Other services
Retail, wholesale
Telecommunications
Construction, Architecture
Tourism
Wine industry
Public works (Roads, land)
Transportation
Education
Industry
Mining
Source: author's calculations.


Risk profile: Enterprises With the Largest Liabilities
(1= very low risk; 5=very high risk)
Profitability
Liquidity
Solvency
Overall Risk
State Road Administrator
TERMOELECTRICA
MOLDTELECOM
Moldtranselectro
Moldova Railways
Communal services (Orhei)
CET-Nord
RED-NORD
Cricova wine factory
ENERGOCOM
Mecagro Agriculture Institute
Moldova Post
North Electricity (supply)
Water management (Orhei)
MOLDEXPO exhibition center
5
4
3
2
1
Source: author's calculations.


Moldova's Governance Framework versus International Best Practices
3 = Broadly aligned
2 = Partially aligned
1 = Not aligned / Unknown
State Ownership (a → c)
Competitive Neutrality (d → l)
Professionalize the BoDs (m → q)
Prudent Asset Management (r →s)
(a) Adopt ownership policy
(b) Rationale for SOEs
(c) Aggregate reporting, audits
(d) Separate competitive, non-competitive activity
(e) Fiscal / regulatory treatment akin to private companies
(f) Clear basis for financing decisions
(g) Non-preferential access to financing
(h) State support reflects cost of public policy objectives
(i) Separate accounts
(j) Dividend payout
(k) Separate ownership, regulation
(l) Clear performance targets
(m) Clear (minimum) qualifications for board members
(n) Criteria for executive remuneration
(o) Prudent risk management; controls
(p) Rules: board representation and composition
(q) Regular board evaluations
(r) Asset management
(s) Combat corruption; resolve conflicts of interest
3
2
1
0
Source: OECD 2018 and staff's interpretation of relevant laws governing pubic enterprises in Moldova.

39. The ongoing surge in energy prices calls for a prudent and transparent response to address the immediate impacts on consumers and businesses. To this end, the authorities plan to (i) transparently reflect increased costs of gas imports in the tariff; (ii) provide direct budgetary emergency support for energy-poor consumers in the form of partial bill payments, with the subsidized portion of the utility bill progressively reduced for larger gas consumers; [7] and (iii) if needed, ensure energy security by transparently allocating state resources to the energy market operator. They will continue leveraging existing well-targeted social assistance programs to adequately protect the most vulnerable populations.

40. Efforts are advancing to improve transparency, predictability, and good governance in the energy sector. Moldova is moving ahead with an ambitious reform agenda to open the energy sector to market competition, in close consultation with the Energy Community Secretariat. Towards this objective, the authorities are fully committed to ensure independence of the energy regulator (ANRE), in line with relevant EU directives. In the ***gas sector***, the energy regulator will issue the final certification for the unbundled gas Transmission System Operator (TSO), Moldovatransgaz in 2022. In the ***electricity sector***, legislative and regulatory frameworks towards full unbundling of the electricity sector will be completed by end 2021, and ANRE will issue the final certification for the unbundled electricity TSO, Moldelectrica, by end-August 2022. The competent authorities plan to adopt the necessary by-laws on energy efficiency obligation schemes, energy audits, and the long-term building renovation strategy to promote energy efficiency.

Authorities' Views

41. On SOEs, the authorities concurred on the urgent need to overhaul the sector's governance, enhance oversight, and reduce fiscal risks. They flagged, however, significant capacity constraints as the main impediment to instilling prudent risk management and control practices, calling for greater reliance on the pool of professional expertise of the Moldovan diaspora. On energy reforms, they acknowledged the importance of continuing to open up the sector to private agents and improve service delivery through competition and stressed the importance of diversifying energy supplies to enhance energy security.

Strengthening the Rule of Law and Addressing Corruption Vulnerabilities

42. Strengthening the rule of law and combating corruption remain critical priorities. Deeply entrenched and systemic corruption continues to mark Moldova's economy, eroding trust in public institutions, and weakening the rule of law. Critical reforms to improve implementation of anti-corruption policies and tackle vested interests need to be undertaken. Reforms to strengthen the independence and accountability of anti-corruption and judicial bodies, reduce avenues for political influence, instill more trust in the justice system, and hold individuals fully accountable for

[7] Utility bills will explicitly report that the government covers 67 percent, 50 percent, and 0 percent of the incremental increase in tariff effected on November 1st for the first 50 m3, the next 100 m3, and over 150 m3of gas consumption, respectively.

abuse of public office for private gain are important objectives and are key to the success of the program.

43. The independence, integrity, and effectiveness of the judiciary should be strengthened. The judiciary is perceived as prone to corruption and lacking independence. Channels for political influence still exist in the judicial oversight body and the procedures for the selection, appointment, evaluation, and disciplining of judges. Inefficiencies in the court system have undermined the protection of investor and property rights and the effectiveness of contract enforcement. Corruption vulnerabilities and low-capacity pose obstacles to a consistent and impartial body of jurisprudence in both criminal and commercial matters. Reforms in the judicial sector under the program will aim to safeguard judges from undue influence, enhance transparency of court proceedings, and improve the system of checks and balances. Priorities will include introducing a robust evaluation process for members of the Supreme Council of Magistrates and judicial candidates as well as aligning disciplinary proceedings and evaluation criteria with international standards. Finally, steps also will be taken to modernize the judicial system, including by improving the system of case assignment, digitalizing court records, and consolidating the judicial map.

44. To tackle perceptions of entrenched corruption, the implementation of the legal framework and the effectiveness of anti-corruption institutions will be strengthened. Although institutions carrying out key anti-corruption functions are in place, they are perceived as being subject to political influence and failing to deliver meaningful results. The asset declaration regime appears to be still only minimally effective in detecting irregularities and illicit enrichment. Corruption enforcement remains focused on low-level instances of corruption and has not resulted in dissuasive, proportionate, or effective sanctions. The following reforms to address such issues are priorities under the program:

- The Criminal Code was amended to ensure that the main corruption offences and all instances of money laundering are classified as serious offences (**prior action**). To help ensure that application of sanctions in corruption cases is proportionate, effective, and dissuasive, consistent with international norms and standards, the authorities will amend the Criminal and Criminal Procedure Codes to add clear criteria and procedures for the application of plea bargaining and prohibit the reduction of a term of imprisonment in corruption cases below the statutory minimum (**end-December 2022 SB**).

- Important institutional reforms will focus on promoting the effectiveness and independence of key anti-corruption institutions, including by developing a balanced, transparent, and fair selection process for the head of the Anti-Corruption Prosecution Office (APO) using objective criteria stipulated by law (**end-March 2022 SB**). The mandates of the APO and NAC will be narrowed to focus on high-level corruption (**end-December 2022 SB**), and measures will be put in place to ensure the APO's financial and operational autonomy. The role of the Superior Council of Prosecutors—including with respect to the recruitment and appointment, evaluation, and disciplining of prosecutors—will be brought in line with international best practices.

- The authorities are also committed to intensifying scrutiny over the assets of high-level officials by better leveraging the asset declaration regime with an eye to detecting illicit enrichment and other corruption offences.

45. The AML framework should be more effectively leveraged to counter the laundering of proceeds of corruption. Supervisory efforts will focus on the implementation of measures related to politically exposed persons as well as on the opaque corporate structure and transactions with high-risk jurisdictions. The authorities should step up efforts—so far disappointing—to achieve tangible progress on asset recovery from the banking fraud and bringing to justice main perpetrators. In this context, the Criminal Asset Recovery Agency will be empowered to represent defrauded banks in international asset recovery actions, including with increased resources. Coordination will be bolstered among all stakeholders under the leadership of the State Security Council.

Authorities' Views

46. The authorities concur with staff's appraisal of systemic and widespread corruption vulnerabilities and rule of law weaknesses in Moldova. The authorities broadly agree with the described agenda of reforms but place more emphasis on the need to cleanse public bodies of corrupt actors before reinforcing their independence. The authorities acknowledge the need to institute meaningful and lasting change and agree to implement reforms in a manner consistent with Constitutional and international principles.

Improving Macroeconomic Statistics

47. Enhancing the quality of economic statistics is vital for effective macroeconomic policy and decision making. Significant efforts are needed to address the human capacity, technological, legislative, and coordination constraints at the National Bureau of Statistics. Consideration should be given to: (i) developing a multi-year strategic plan to improve production and dissemination of statistics; (ii) aligning the legal framework for producing statistics with the EU standards; and (iii) strengthening the financial and human resources as well as greater intra-institution coordination. The authorities have committed to strengthening macroeconomic statistics, including addressing recommendations from the 2019 Eurostat Global Assessment report.

PROGRAM MODALITIES

Access, Phasing and Review Schedule

48. The authorities' program will be supported by 40-month ECF/EFF blended arrangements with access of SDR 400 million (232 percent of quota). This level of access—of which SDR 133.3 million under the ECF and SDR 266.7 million under the EFF—is justified by Moldova's protracted BOP needs and large upfront financing gaps (estimated at US$1.2 billion for 2021–25) arising from the impact of the pandemic in 2021-22, and large developmental needs over the medium term (¶5, 6, 11, 12 and Box 2), as well as the strength of the program, and the authorities' commitment to reforms as demonstrated by the six prior actions. The program is expected to catalyze additional donor financing, including from the World Bank and the EU (including under a new multi-year MFA in support of governance reforms), to ensure that it remains fully financed. Firm financing assurances are in place for the next 12 months—both the EU's MFA consultation process with the Member States and the World Bank's negotiations on a new policy loan have been formally launched, fully in line with the programmed financial envelopes.

Financing Gap, Financing, and Burden Sharing, 2021–25

	US$ million	Percent of financing
Total financing gap (external) 1/	**1,170**	...
o/w Fiscal financing gap 2/	1,000	...
Official financing	**1,170**	**100**
Identified program financing	**621**	**53**
European Commission	464	40
World Bank	140	12
Other official donors	17	1
Fund Program	**549**	**47**
of which: budget support	431	37

Sources: Moldovan authorities and IMF staff projections.

1/ After the SDR allocation (US$236 million) received in August 2021.

2/ Computed as the difference between the overall fiscal deficit and the available non-official financing.

49. The global SDR allocation led to a US$236 million allocation to Moldova. Given the adequate level of international reserves and large financing needs to support the post-pandemic recovery and developmental objectives, staff supported the authorities' plans to utilize the allocation for budgetary financing to partially fill the financing gap in 2021. Using the SDR allocation for budgetary financing was authorized by a special legislation approved by parliament to ensure consistency with domestic legal framework that otherwise prohibits NBM lending to the government. The authorities have committed to using these resources in a transparent manner.

50. The program will have six semi-annual reviews with the sequencing of reforms carefully aligned with the authorities' implementation capacity. With the SDR allocation easing immediate liquidity pressures, equal phasing is appropriate given projected BOP and fiscal gaps, with the first four tranches used for direct budget support and the remaining tranches split each ECF and EFF disbursement/purchase equally between the NBM and the MOF. The proposed access and phasing will help preserve foreign exchange reserve buffers at a comfortable coverage level above 120 percent of the IMF composite metric to absorb potential shocks.

51. Program monitoring will be guided by quantitative targets, prior actions, structural benchmarks, and an inflation consultation clause (MEFP Tables 1 and 2):

- Quantitative performance criteria (QPCs) are proposed for end-June and end-December, with a first test date of end-June 2022. Indicative targets (ITs) are set for end-March and end-September. QPCs include a ceiling on the cash deficit of the general government, a floor on the net international reserves (NIR) of the NBM, as well as a continuous PC on non-accumulation of external payment arrears. ITs include a ceiling on the general government wage bill, a floor on priority social spending of the general government, and a floor on development spending. Monetary conditionality would be embedded in the inflation consultation clause. The inflation consultation bands are set symmetrically around the 12-month percentage change in headline inflation, while ensuring medium-term consistency with the NBM's inflation target.

- Prior actions (all met) and structural benchmarks are focused on achieving key objectives of the program related to strengthening governance and institutions in the fiscal and financial sectors, as well as rule-of-law, anti-corruption, and regulatory frameworks.

52. An updated safeguards assessment was completed in 2020, covering NBM governance and control frameworks. The NBM's safeguards framework remains robust, and the central bank is actively developing its operational risk management function. The key safeguards vulnerability relates to the NBM being exposed to political attempts to dent its autonomy. Consequently, amendments to the NBM Law are needed to mitigate such risk and safeguard the governance arrangements.

53. A new Poverty Reduction and Strategy Paper (PRSP) will be prepared before the second review, given Moldova's access to PRGT resources under the ECF.

Capacity to Repay the Fund and Risks to the Program

54. Moldova's capacity to repay the Fund is adequate. The Fund's exposure will peak at 4.7 percent of GDP in 2024, before declining thereafter. Total debt service to the Fund will peak at 2.2 percent of total exports in 2024. The repayment profile entails peak obligations of around 3.0 percent of gross reserves in 2024 for existing obligations and in 2029 for obligations from the new arrangements. 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. Risks to the capacity to repay emanate from the volatile political environment and the possibility of policy reversals.

55. Program implementation risks are high but are mitigated by the authorities' strong reform commitment. Domestically, delays and policy reversals may arise from re-emergence of political instability, resistance by entrenched vested interests, reform fatigue, and a resurgence of COVID-19 outbreaks. Externally, downside risks to the global recovery—including from the ongoing energy price volatility—could have negative spillovers for trade, capital, and remittance flows, and complicate prudent policymaking. Moldova remains susceptible to spillovers from geopolitical tensions. Implementation of the upfront prior actions and the authorities' resolve to press ahead with difficult but necessary reforms can mitigate these risks. Moreover, notwithstanding continued political volatility, Fund-supported reforms continue to retain broad-based political support and the large parliamentary majority has spoken in favor of a new governance-focused program engagement.

Figure 1. Moldova: Sequencing of Reforms under the ECF/EFF Arrangements, 2021–25

Governance Pillar	Policy Objectives	Priorities and Sequencing					
		2021	2022	2023		2024	2025
	Test date:	Board Meeting Dec 2021	1st Review Jun 2022	2nd Review Dec 2022	3rd Review Jun 2023	4th and 5th Reviews Dec 2023 and Jun 2024	6th Review Dec 2024
Rule of Law	**Strengthen rule of law to improve the business environment**	Publish the Country Governance Report 1/	Improve efficiency/autonomy of courts; Address corruption risks and vulnerabilities; Improve impartiality in settlement of disputes				
Anti-corruption Framework	**Strengthen corruption legislation and national anti-corruption institutions**	Criminalize corruption offences in line with international standards	Strengthen anti-corruption institutions and frameworks	Improve effectiveness of corruption enforcement; Enhance the operational autonomy and effectiveness of anti-corruption bodies; Ensure effective implementation of legal provisions governing the criminal liability of legal persons; Strengthen the asset declaration system			
Regulatory Framework	**SOE reforms to reduce fiscal risks and foster competition, productivity, and private investment**		Conduct financial and fiscal assessment of SOE sector, including fiscal risks, fiscal costs and SOE financial 'health check'	Adopt a state ownership rationale and ownership policy	Phased implementation of SOE ownership policy (incl. beyond 2025)		
				Strengthen SOE governance and implement enhanced SOE reporting, disclosure, accountability, and controls			
	Energy sector reforms to reduce fiscal risks and strengthen the business environment		Complete legislative/regulatory frameworks for unbundling gas/electricity sectors	Implement unbundling plans for gas TSO Moldovatransgaz and TSO Moldelectrica	Adopt necessary legislation on efficiency obligation schemes, audits, and long-term building renovation strategy; Adopt new electricity procurement rules		
Fiscal Governance	**Improve spending efficiency and fiscal sustainability**	Repeal the reduction of the pension age	Strengthen budgetary sector pay system				
			Design and implement measures to improve sustainability of the pension system				
		Approve the 2022 budget in line with the agreed macro-framework		Expand the coverage of the existing public investment management framework			
			Improve oversight of Road Fund, Regional Development Fund, and Ecological Fund projects				
				Enhance social assistance programs			
				Update the PRSP		Scale up investment in disaster and climate risk mitigation and strengthen gender equality	
	Strengthen revenue mobilization		Conduct and publish tax expenditure review	Reduce revenue leakages			
			Tax admin reforms: operationalize taxpayer register; strengthen VAT refund processing		Strengthen tax-crime enforcement		
	Enhance fiscal transparency	Publish BO information of entities contracting on crisis-related spending; require BO information disclosure for all procurements; publish audit of the use of health resources to combat the pandemic	Continue to improve fiscal transparency and accountability of crisis-related spending		Strengthen debt and cash management		
			Institutionalize spending reviews		Enhance fiscal risk disclosure and management		
				Strengthen fiscal responsibility framework and budget transparency			
					Strengthen public procurement		
Financial Sector Oversight	**Support financial stability through improved oversight, supervision, and regulation**	Consolidate bank and NBCOs regulation and supervision under NBM	Strengthen the non-banking financial sector and reduce non-bank systemic risks; Complete Basel III implementation; Strengthen macropru framework and cross-border supervision				
		Strengthen integrity/finality of NCFM's regulatory and supervisory decisions	Complete CSD reform		Strengthen National Financial Stability Committee		
	Strengthen financial safety nets to increase resilience			Enhance ELA framework	Develop and implement strategies for financial inclusion and capital market development; Enhance consumer protection and financial education		
	Address financial stability risks in the insurance sector		Complete solvency assessment of all insurance companies	Develop and implement resolution strategy for insolvent insurers			
AML/CFT	**Strengthen AML/CFT framework and implementation**			Full compliance with 2019 MONEYVAL recommendations	Strengthen the use of AML/CFT tools to support anti-corruption efforts		
Central Bank	**Achieve 'de facto' NBM independence and strengthen inflation-targeting regime**	Unequivocal commitment to NBM independence from key political decision makers					
		Ensure independent decision-making of NBM Executive Board	Implement Safeguards Assessment recommendations	Strengthen interactions between the NBM Law and asset-declaration legislation			
		Strengthen integrity/finality of monetary policy, regulatory, and supervisory decisions		Enhance disclosure provisions of confidential information for criminal investigation purposes			
		Continue recalibrating the reserve requirement framework to remove dollarization bias; Improve liquidity management					
			Strengthen implementation of the FX intervention strategy; Enhance the credibility of monetary policy				

- Reform measures to be guided by recommendations from the Country Governance Report and discussions with the authorities.

1/ Relevant for all governance pillars.

STAFF APPRAISAL

56. The 2020 drought, COVID-19 Pandemic, and recent surge in energy prices have severely damaged Moldova's economy, necessitating a strong policy response. To help cushion the negative macro-economic impact of these combined shocks, the authorities responded quickly, focusing on urgently needed policies in support of the healthcare system, social assistance programs, and business activity, as well as to address the energy crisis, supported by emergency financial assistance from international partners. However, the under-execution of approved Covid-related crisis measures emphasizes the need to address longstanding capacity constraints. A strong policy mix, including the near-term fiscal stance that carefully balances targeted social assistance and development spending, is needed to sustain the recovery. Prudent policies will be critical to ensure that Moldova remains at low risk of debt distress, with its real effective exchange rate to continue to be broadly aligned with fundamentals and desirable policy settings.

57. Moldova's urgent development needs call for more effective spending policies and revenue mobilization efforts, delicately balanced against continued fiscal discipline. Large gaps relative to peers in spending on critical sectors—infrastructure, education, health, and water—need to be closed. The capital budget needs to be ramped up, made better targeted, more efficient, and effective, while domestic resources need to be better mobilized. This is to ensure a growth-friendly development agenda that achieves the authorities' aspirations to develop the economy, while balancing the need for sustainable fiscal and debt trajectories in the future. In this context, concerted efforts to streamline extensive tax expenditures and improve budget quality—alongside the extensive international partners' support—are critical to demonstrate Moldova's commitment to mobilize domestic resources to advance development.

58. Meanwhile, addressing significant governance weaknesses and institutional vulnerabilities remains critical. Structural reforms to strengthen governance frameworks and institutions can yield large medium-term gains. Strengthening the rule of law, addressing wide-spread corruption, and fully embracing the independence of key institutions are key priorities. The authorities and staff agree that reforms under this program—appropriately sequenced and resolutely implemented—can improve the business environment, foster competition and innovation, unlock private investment, curb brain drain, accelerate human capital accumulation, and increase productivity. This would set Moldova on a more balanced, inclusive, and sustainable growth path, accelerating income convergence with European peers.

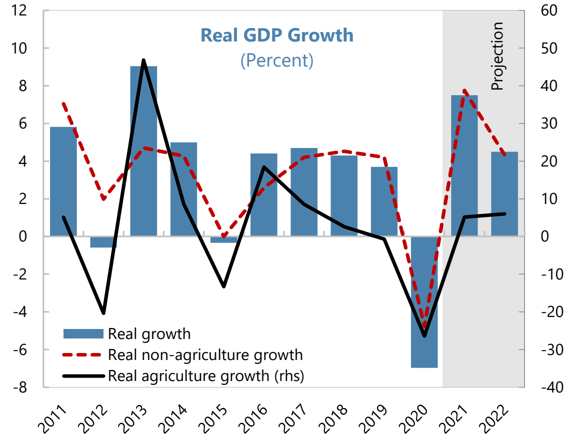
59. The program is designed to support the authorities' objectives. First, the program provides a buffer to secure urgently needed financing to prevent severe disruptions to economic activity and support economic agents, together with a prudent policy mix to sustain a robust recovery. Second, the program will launch ambitious and macro-critical governance and institutional reforms to strengthen transparency and accountability, improve public policy predictability, strengthen fiscal and financial institutions, and foster deregulation and competition. Decisive policy action and firm commitment to reform irreversibility and implementation of agreed reforms under the program are prerequisites for its success.

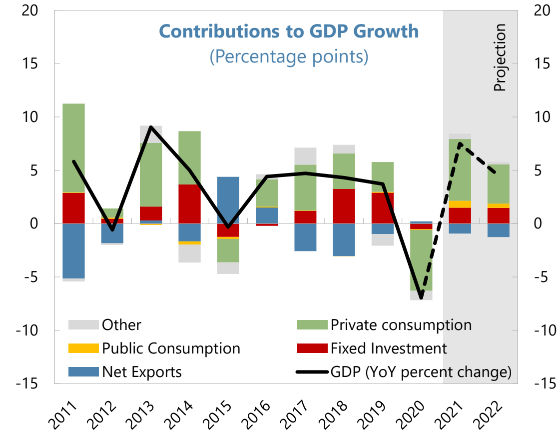
60. **Staff supports the authorities' request for arrangements under the ECF and EFF**, with cumulative access of SDR 400 million (232 percent of quota). While risks to the program are high, an agreement with the Fund on new arrangements aimed at addressing structural vulnerabilities would catalyze external financing, while reforms could give rise to large medium-term growth dividends. In light of the authorities' strong ownership of their program, as reflected in recent policy actions and commitments ahead, Fund's support is warranted.

61. **It is recommended that the next Article IV consultation with Moldova be held on the 24-month cycle.**

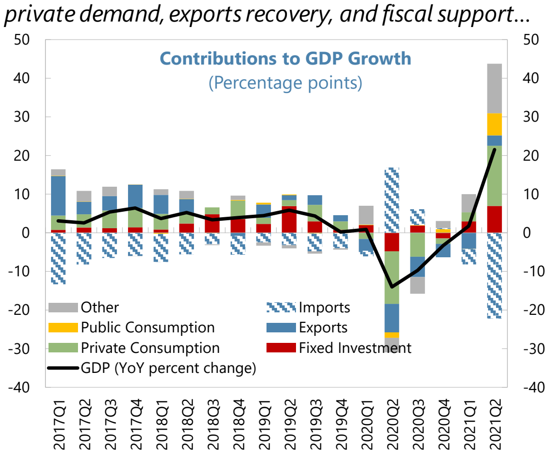
Figure 2. Moldova: Real Sector Developments, 2011–2022

The economy is recovering from the 2020 double shocks of the agricultural drought and COVID pandemic, lifted by strengthening private aggregate demand and policy support…

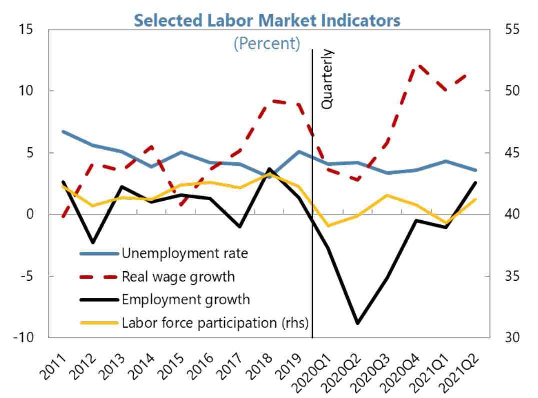




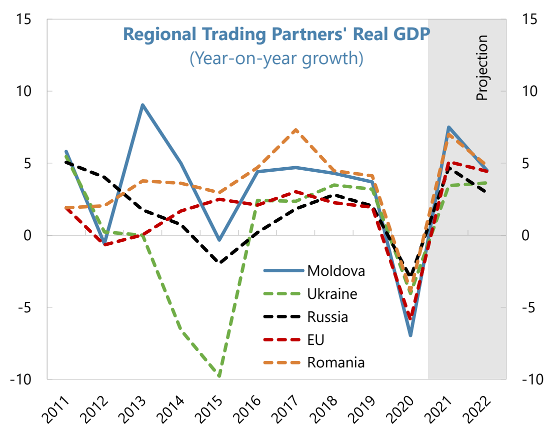
… real growth in H1 was driven by strong rebound in private demand, exports recovery, and fiscal support…



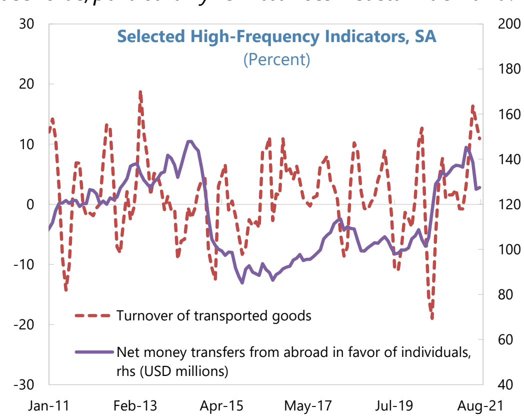
… employment growth has recovered following a collapse in mid-2020 due to severely curtailed business activities…



… the estimated economic recovery in Moldova follows similar projected rebounds in regional peers,



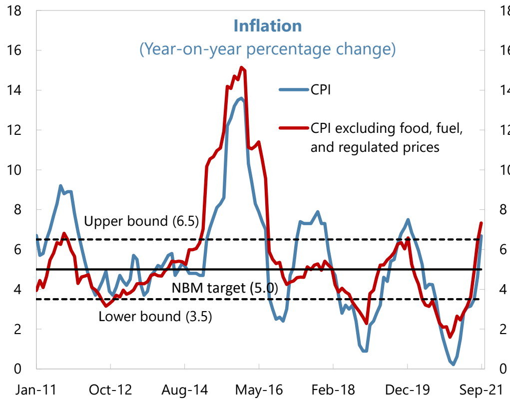
… important foreign currency inflows—a lifeline to households, particularly remittances—sustain demand.



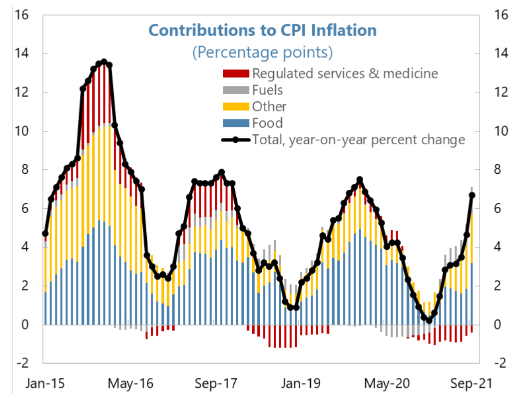
Sources: Moldovan authorities; National Bureau of Statistics of the Republic of Moldova; and IMF staff calculations.

Figure 3. Moldova: Money, Prices, and Interest Rates, 2011–2021

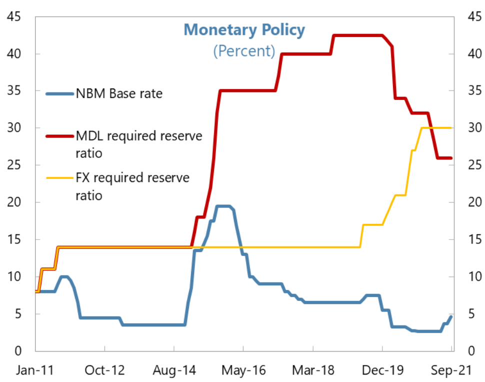
Headline and core inflation is on the rise in line with the recovery, exceeding the NBM's target and topping the NBM's upper bound,

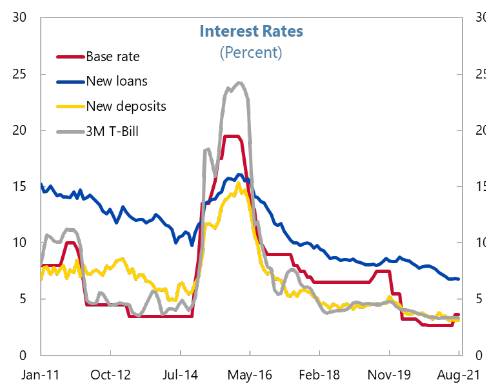


… driven by resurging demand and higher international energy commodity and food prices,

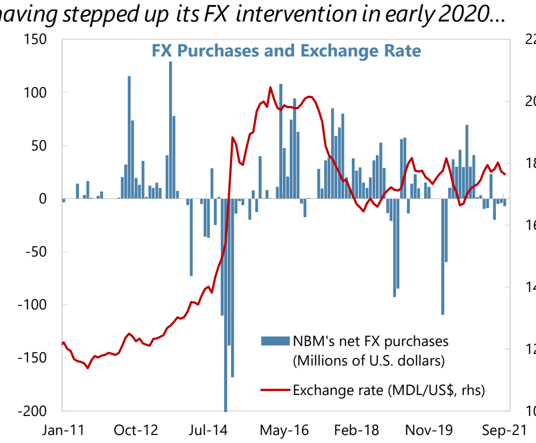


The NBM shifted to a tightening cycle beginning July 2021—in line with its inflation objective—and hiked the base rate by a cumulative 285 basis points on account of a worsening inflation outlook.

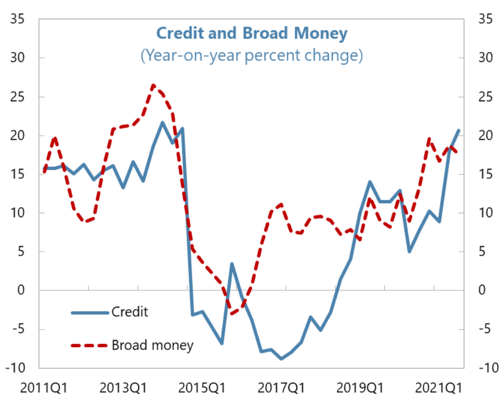




The NBM has reduced its footprint in the FX market, after having stepped up its FX intervention in early 2020…



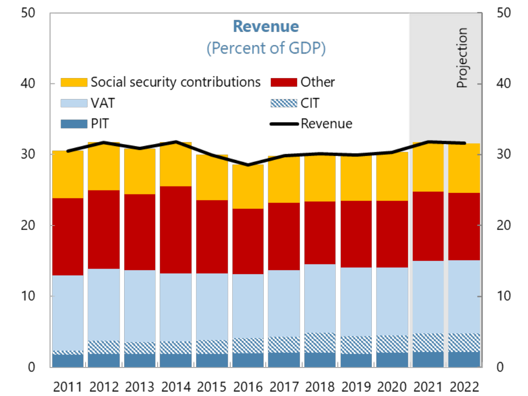
… strong credit to the economy continues to flow to support the recovery…



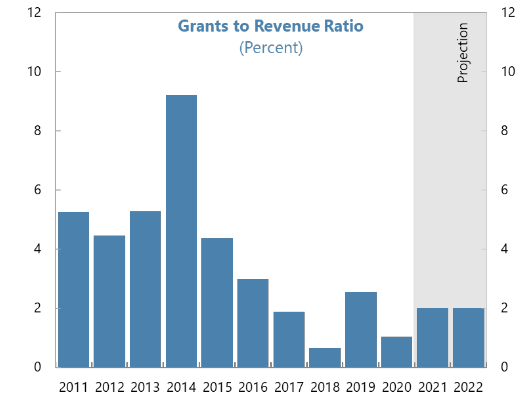
Sources: National authorities; and IMF staff calculations.

Figure 4. Moldova: Fiscal Developments, 2011–2022

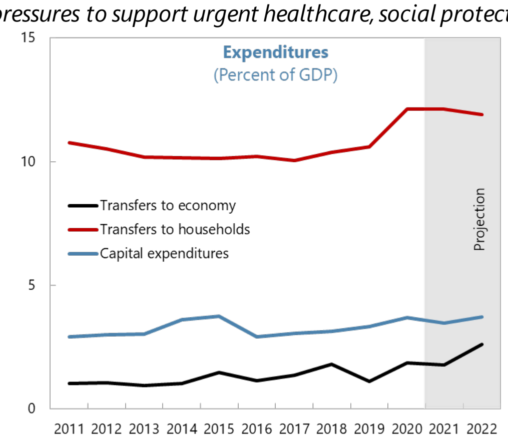
Budget revenues are strengthening as the economic recovery takes hold, despite the enacted tax relief measures…

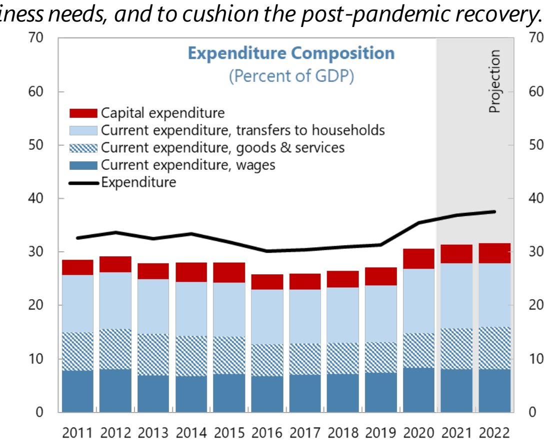


… foreign grants from key partners are expected to continue…

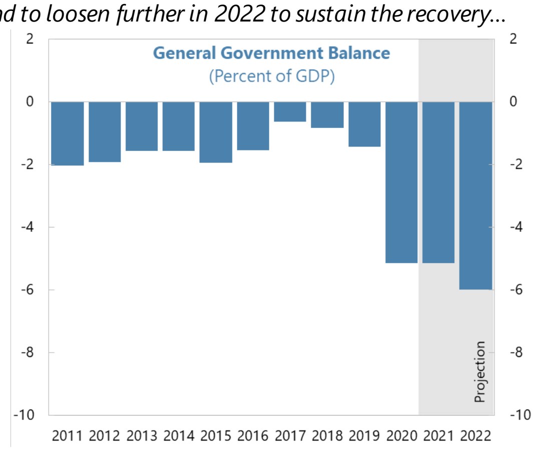


Successive supplementary budgets enacted in 2020 and 2021 created ample fiscal space to respond to rising spending pressures to support urgent healthcare, social protection and business needs, and to cushion the post-pandemic recovery.

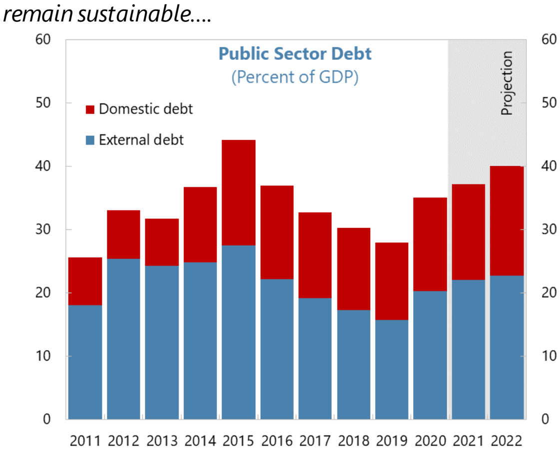




The budget deficit is forecast to remain elevated in 2021 and to loosen further in 2022 to sustain the recovery…



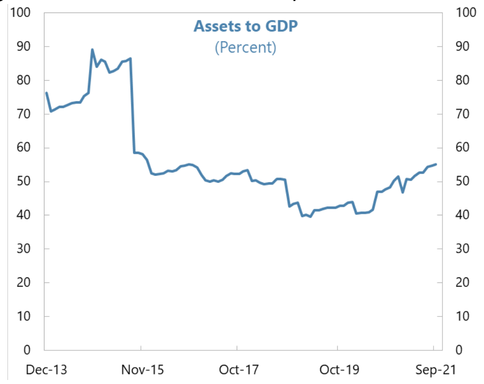
…with expected increases in public debt ratios, which remain sustainable….



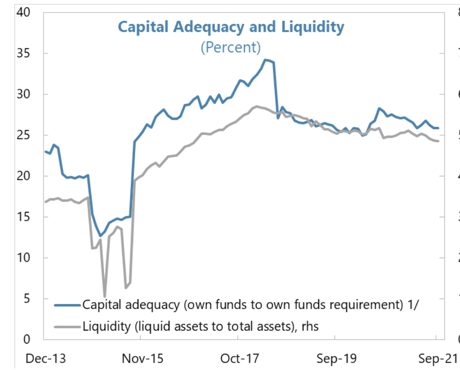
Sources: Moldovan authorities; and IMF staff calculations.

Figure 5. Moldova: Banking Sector Developments, 2013–2021

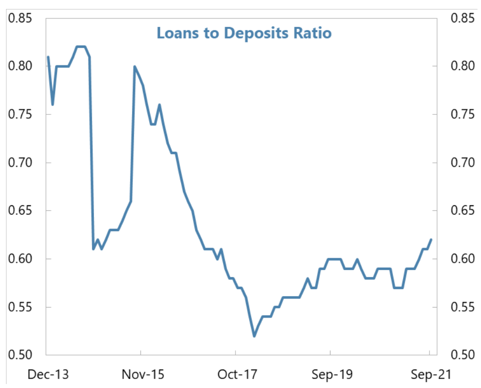
The banking sector entered the pandemic on a strong footing; thanks to reforms under the previous ECF/EFF,



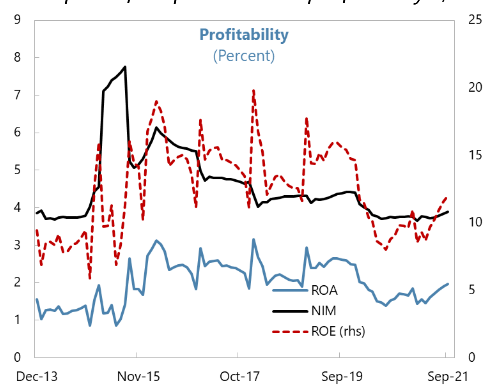
… with adequate capital buffers and healthy liquidity,



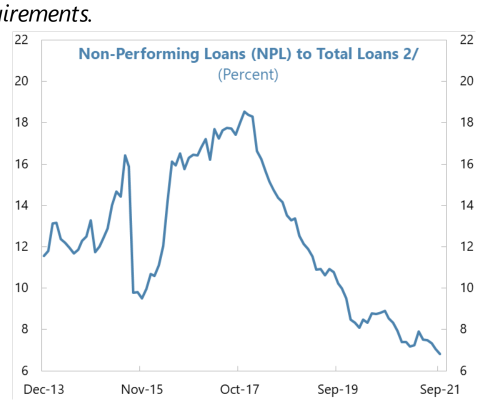
… credit provision remains strong,

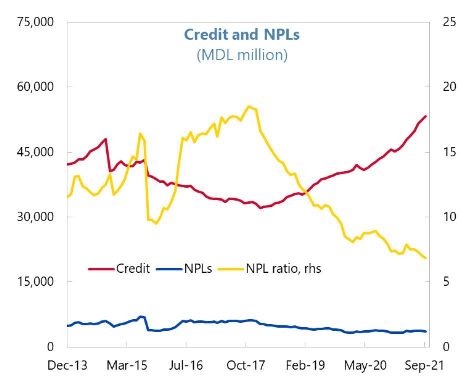


… bank operations have continued to show resilience, with limited impact of the pandemic on profitability…,



… asset quality has been preserved, with continuing downward trajectory in NPL ratios and continued strong provisioning requirements.





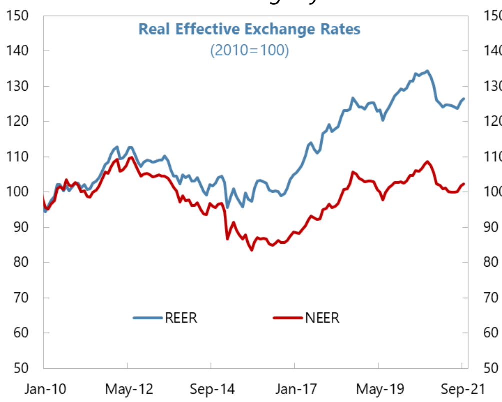
Sources: National Bank of Moldova; and IMF staff calculations.

1/ Prior to 2020, total regulatory capital to risk-weighted assets. Change in methodology was introduced in the process of transition to Basel III supervision standards, the notion of „Risk weighted assets" was substituted with „Own funds requirement" which additionally to credit risk requirement includes capital requirements for market and operational risk.

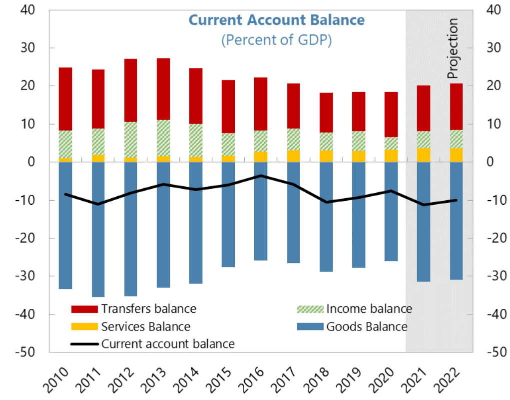
2/ The acquisition of EXIMBANK by Veneto Banca S.p.A. in February 2018 required mandatory liquidation of NPLs and loan balances.

Figure 6. Moldova: External Sector Developments, 2010–2022

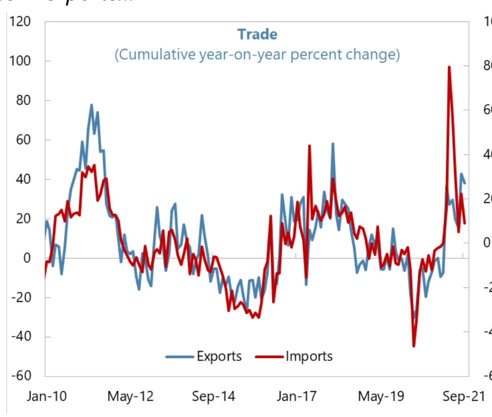
The NEER and REER have recently slightly appreciated, following some weakening in past months; the Leu is estimated to have remained slightly overvalued



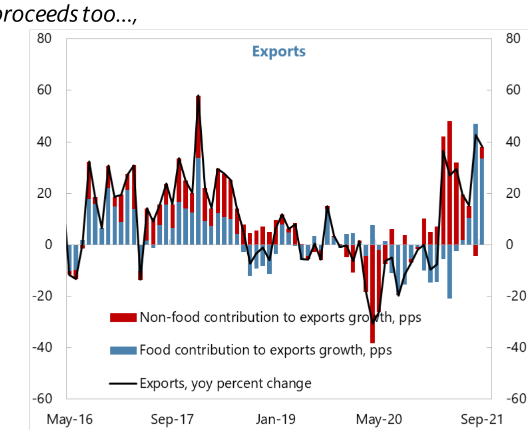
... the current account deficit has widened on stronger domestic demand in line with the economic recovery....



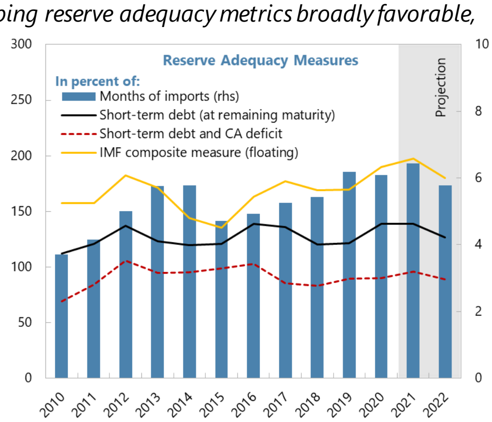
...as the rebound and growth in import flows outstripped those in exports...



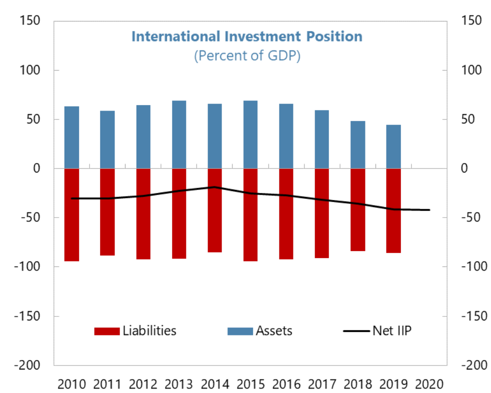
...albeit with visible improvements and recovery in exports proceeds too...,



The financial account is accumulating inflows that more than cover the current account deficit—contributing to overall increases in gross external reserve buffers and keeping reserve adequacy metrics broadly favorable,



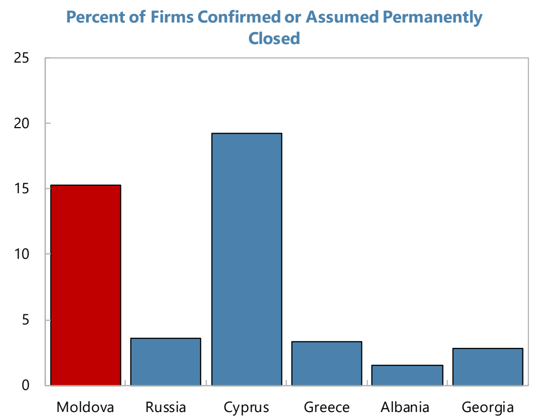
...with insignificant changes to Moldova's net IIP.



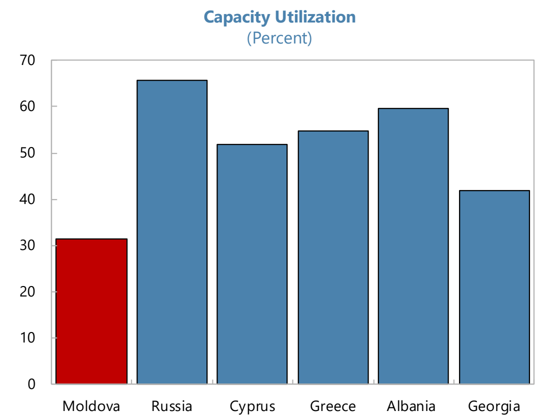
Sources: National Bank of Moldova; Moldovan Authorities; and IMF staff and calculations.

Figure 7. Moldova: COVID-19 Impact on Firms, June 2020

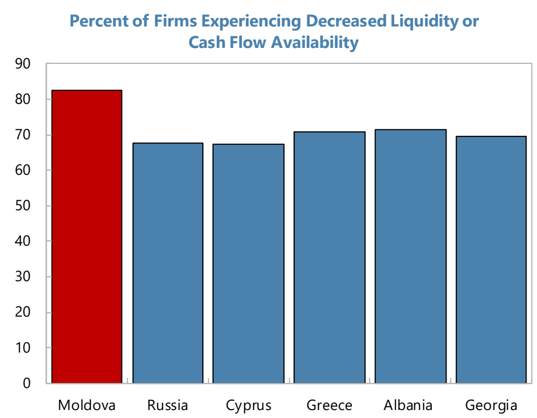
The pandemic has forced a shut down in firms' activities,



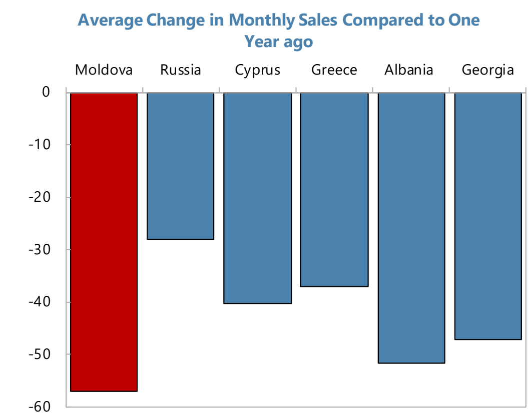
... severely curtailing performance and working hours, and leading to furloughs...



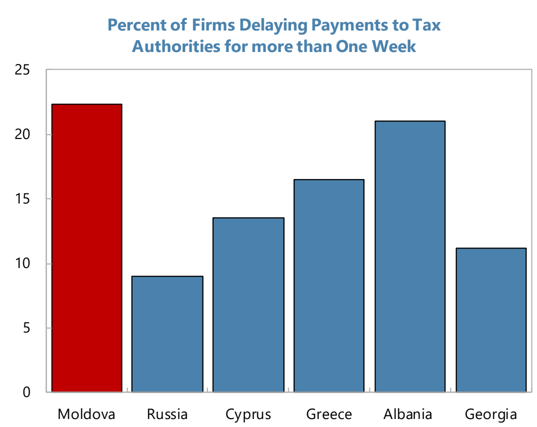
... as financing constraints weighed on firm operations,



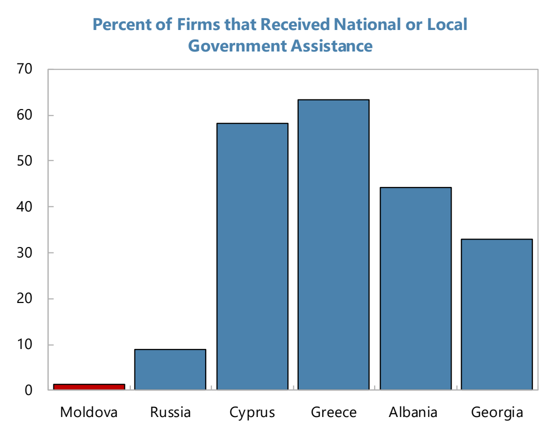
... resulting in supply and demand restraint.



Tax deferral measures benefitted some businesses,



... direct support schemes fell far short of those in other countries.



Source: World Bank Enterprise Surveys: Covid-19 Impact on Firms.

Table 1. Moldova: Selected Economic Indicators, 2016–2026 1/

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					Prelim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)										
Real sector indicators											
Gross domestic product											
Real growth rate	4.4	4.7	4.3	3.7	-7.0	7.5	4.5	5.5	5.8	5.4	5.0
Demand	2.3	5.9	6.0	3.7	-5.8	6.9	4.5	4.6	5.1	4.8	4.6
Consumption	2.6	4.7	3.3	2.9	-5.9	6.5	4.0	3.9	4.3	4.1	4.3
Private	2.9	5.3	3.9	3.3	-6.8	7.1	4.4	4.3	5.0	4.8	5.0
Public	0.6	1.1	-0.2	0.5	-0.5	3.8	2.2	2.2	1.0	0.8	0.6
Gross fixed capital formation	-0.9	8.0	14.5	11.9	-2.1	5.8	5.6	6.0	6.8	6.5	6.3
Net Exports of goods and services	5.9	-11.1	-13.0	-3.8	0.8	-4.2	-4.6	-1.4	-2.6	-2.6	-2.8
Exports of goods and services	9.8	10.9	7.2	8.2	-15.5	11.1	6.5	8.5	7.3	7.0	6.7
Imports of goods and services	2.8	11.0	9.7	6.2	-8.9	7.9	5.6	5.2	5.2	5.1	5.0
Nominal GDP (billions of Moldovan lei)	160.8	178.9	192.5	210.4	206.4	232.5	255.6	284.5	317.5	353.0	391.0
Nominal GDP (billions of U.S. dollars)	8.1	9.7	11.5	12.0	11.9	13.0	13.6	14.4	15.3	16.3	17.3
Consumer price index (average)	6.4	6.5	3.6	4.8	3.8	4.0	6.2	5.0	5.0	5.0	5.0
Consumer price index (end of period)	2.3	7.3	0.9	7.5	0.4	7.9	5.0	5.0	5.0	5.0	5.0
GDP deflator	5.7	6.2	3.2	5.4	5.4	4.8	5.2	5.5	5.5	5.5	5.5
Average monthly wage (Moldovan lei)	5,084	5695	6,443	7,356	8,104	8,619	9,328	10,325	11,450	12,650	13,925
Average monthly wage (U.S. dollars)	255	308	383	419	468	483	496	523	553	584	616
Unemployment rate (annual average, percent)	4.2	4.1	3.1	5.1	3.8	5.5	3.0	3.0	3.0	3.0	3.0
	(Percent of GDP)										
Saving-investment balance											
Foreign saving	3.6	5.7	10.6	9.3	7.5	11.3	10.2	9.4	8.8	8.2	8.0
National saving	18.6	16.5	13.7	15.9	18.2	14.9	16.4	17.3	18.3	19.1	19.4
Private	16.9	14.1	11.5	14.0	19.6	16.6	18.7	18.3	18.3	18.6	18.8
Public	1.8	2.4	2.3	1.9	-1.4	-1.7	-2.3	-1.1	0.1	0.4	0.6
Gross investment	22.2	22.3	24.3	25.2	25.7	26.2	26.6	26.7	27.1	27.3	27.5
Private	19.3	19.3	21.2	21.9	22.0	22.7	22.9	22.7	22.9	23.1	23.3
Public	2.9	3.0	3.1	3.3	3.7	3.5	3.7	4.0	4.2	4.2	4.2
Fiscal indicators (general government)											
Primary balance	-0.5	0.5	-0.2	-0.8	-4.6	-4.5	-5.2	-4.2	-3.2	-2.7	-2.5
Overall balance	-1.5	-0.6	-0.8	-1.4	-5.1	-5.2	-6.0	-5.1	-4.1	-3.8	-3.6
Stock of public and publicly guaranteed debt	37.0	32.7	30.3	27.9	35.0	37.1	40.0	42.0	42.9	42.5	41.7
	(Percent change, unless otherwise indicated)										
Financial indicators											
Broad money (M3)	10.2	9.4	7.8	8.2	19.6	15.6	9.3	…	…	…	…
Velocity (GDP/end-period M3; ratio)	2.3	2.3	2.3	2.3	1.9	1.9	1.9	…	…	…	…
Reserve money	12.1	11.2	17.7	7.6	18.8	9.8	9.3	…	…	…	…
Credit to the economy	-7.6	-3.4	4.1	11.5	10.3	15.0	10.0	…	…	…	…
Credit to the economy, percent of GDP	24.5	21.3	20.6	21.0	23.6	24.1	24.1	…	…	…	…
	(Millions of U.S. dollars, unless otherwise indicated)										
External sector indicators 2/											
Current account balance	-288	-555	-1212	-1112	-893	-1469	-1384	-1361	-1345	-1341	-1393
Current account balance (percent of GDP)	-3.6	-5.7	-10.6	-9.3	-7.5	-11.3	-10.2	-9.4	-8.8	-8.2	-8.0
Remittances and compensation of employees (net)	1,326	1,494	1,669	1,729	1,669	1,893	2,006	2,115	2,230	2,328	2,418
Gross official reserves 3/	2,206	2,803	2,995	3,060	3,784	4,298	4,056	3,879	3,786	3,583	3,401
Gross official reserves (months of imports)	4.9	5.3	5.4	6.2	6.1	6.5	5.8	5.2	4.7	4.2	3.7
Exchange rate (Moldovan lei per USD, period average)	19.9	18.5	16.8	17.6	17.3	…	…	…	…	…	…
Exchange rate (Moldovan lei per USD, end of period)	20.0	17.1	17.1	17.2	17.2	…	…	…	…	…	…
Real effective exch.rate (average, percent change)	2.4	10.5	9.1	2.1	5.3	…	…	…	…	…	…
External debt (percent of GDP) 4/	76.8	70.4	65.5	62.7	64.8	63.7	63.8	63.3	62.6	60.6	57.7
Debt service (percent of exports of goods and services)	13.1	12.6	14.7	13.4	15.8	12.2	11.4	11.5	11.9	12.1	12.4

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

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

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

4/ Includes private and public and publicly guaranteed debt.

Table 2a. Moldova: Balance of Payments, 2016–2026 1/

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-288.4	-555	-1,212	-1,112	-893	-1,469	-1,384	-1,361	-1,345	-1,341	-1,393
Merchandise trade balance	-2,079	-2,559	-3,294	-3,312	-3,094	-4,099	-4,187	-4,380	-4,581	-4,799	-5,042
Exports	1,558	1,866	1,975	2,118	1,944	2,275	2,515	2,716	2,939	3,183	3,437
Imports	3,636	4,425	5,269	5,430	5,039	6,374	6,702	7,096	7,519	7,982	8,480
Services balance	221	304	356	351	382	460	489	538	600	668	740
Exports of services	1,066	1,253	1,477	1,544	1,278	1,536	1,678	1,868	2,085	2,318	2,568
Imports of services	845	949	1,121	1,193	895	1,077	1,189	1,330	1,484	1,650	1,828
Income balance	446	556	536	615	390	600	658	726	799	869	913
Compensation of employees	641	762	854	878	730	803	851	902	957	1,004	1,055
Income on direct and portfolio investment	-193	-204	-316	-262	-339	-201	-192	-175	-157	-135	-141
Other income	-2	-2	-2	-2	-1	-2	-1	-1	-1	-1	-1
Current transfer balance	1,124	1,143	1,190	1,234	1,429	1,570	1,655	1,755	1,837	1,922	1,997
Remittances	684	732	815	851	939	1,089	1,155	1,212	1,273	1,324	1,364
Budget transfers	102	144	100	102	112	79	67	84	77	82	87
Other transfers	337	268	275	281	378	401	433	459	487	516	547
Capital and financial account balance	-748	-905	-1,391	-1,096	-1,243	-1,752	-922	-940	-1,078	-1,138	-1,235
Capital account balance	-18	-21	-36	-55	-66	-50	-49	-49	-48	-47	-46
Financial account balance (inflows: "-")	-766	-926	-1,427	-1,151	-1,309	-1,802	-971	-988	-1,125	-1,184	-1,281
Foreign direct investment, net (inflows: "-")	-74	-139	-259	-468	-152	-232	-252	-270	-315	-345	-398
Portfolio investment and derivatives, net	0	-1	5	5	0	4	3	3	3	3	3
Other investment, net	-692	-787	-1,173	-688	-1,157	-1,573	-722	-721	-813	-842	-886
Loans	-23	-58	-111	-119	-223	56	-69	-36	-75	-43	-45
General government, net	-46	-13	17	1	-115	-43	-35	19	54	78	86
Private sector, net	23	-45	-128	-120	-108	99	-34	-54	-129	-121	-131
Other capital flows, net	-668	-729	-1,061	-569	-934	-1,629	-654	-686	-739	-799	-841
Errors and omissions	-68	76	47	18	-84	21	0	0	0	0	0
Overall balance	391	426	226	2	267	303	-462	-421	-267	-203	-157
Financing	-391	-426	-226	-2	-267	-303	462	421	267	203	157
Gross international reserves (increase: "+")	531	531	236	60	637	514	-242	-178	-92	-203	-182
Use of Fund credit, net	-37	-44	-55	-36	183	30	46	100	52	0	-25
Monetary authorities	-37	-44	-41	-37	-42	-32	-21	-12	-17	-21	-25
Purchases	12	18	21	18	7	0	0	0	1	0	0
Repurchases	49	62	62	55	49	32	21	12	17	21	25
General government	0	0	-14	1	225	62	68	111	69	21	0
Purchases	24	26	13	28	249	78	78	157	157	79	38
Repurchases	24	26	27	26	24	16	11	45	88	58	38
Exceptional financing	177	150	65	94	188	181	174	144	122	0	0
European Commission	47	36	0	93	110	171	117	94	82	0	0
World Bank	62	5	60	1	54	0	50	50	40	0	0
Other official bilateral donors	68	108	5	0	24	10	7	0	0	0	0
	(Percent of GDP, unless otherwise indicated)										
Memorandum items:											
Gross official reserves (millions of U.S. dollars) 2/	2,206	2,803	2,995	3,060	3,784	4,298	4,056	3,879	3,786	3,583	3,401
Months of imports of good and services	4.9	5.3	5.4	6.2	6.1	6.5	5.8	5.2	4.7	4.2	3.7
Percent of short term debt and CA deficit	103.0	85.5	83.2	89.5	90.2	96.9	88.8	81.8	76.7	68.3	91.8
Pct of short-term debt at remaining maturity	139.0	135.7	120.4	121.1	138.7	140.9	126.4	114.2	105.4	92.9	91.8
Pct of the IMF composite measure (floating) 3/	163.1	176.8	168.9	169.6	190.1	199.5	179.5	163.1	151.5	137.7	127.4
Current account balance	-3.6	-5.7	-10.6	-9.3	-7.5	-11.3	-10.2	-9.4	-8.8	-8.2	-8.0
Goods and services trade balance	-23.0	-23.3	-25.6	-24.7	-22.8	-27.9	-27.2	-26.7	-25.9	-25.3	-24.9
Export of goods and services	32.5	32.3	30.1	30.6	27.0	29.3	30.8	31.8	32.8	33.7	34.7
Import of goods and services	55.5	55.6	55.8	55.3	49.8	57.2	58.0	58.5	58.7	59.1	59.6
Foreign direct investment balance	0.9	1.4	2.3	3.9	1.3	1.8	1.9	1.9	2.1	2.1	2.3
	(Percent change of amounts in U.S.dollars, unless otherwise indicated)										
Exports of goods	3.4	19.8	5.8	7.2	-8.2	17.0	10.6	8.0	8.2	8.3	8.0
Exports of services	8.6	17.6	17.9	4.5	-17.2	20.3	9.2	11.3	11.6	11.2	10.8
Imports of goods	0.2	21.7	19.1	3.0	-7.2	26.5	5.1	5.9	6.0	6.2	6.2
Imports of services	-0.5	12.3	18.2	6.4	-24.9	20.3	10.4	11.9	11.6	11.2	10.8
Remittances and compensation	16.4	15.4	14.6	14.4	14.0	14.5	14.8	14.7	14.5	14.3	14.0
Debt service (pct of exports of goods and services)	13.1	12.6	14.7	13.4	15.8	12.2	11.4	11.5	11.9	12.1	12.4

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

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

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

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

Table 2b. Moldova: Balance of Payments, 2016–2026 1/

(Percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3.6	-5.7	-10.6	-9.3	-7.5	-11.3	-10.2	-9.4	-8.8	-8.2	-8.0
Merchandise trade balance	-25.8	-26.5	-28.8	-27.7	-26.0	-31.5	-30.8	-30.4	-29.9	-29.4	-29.1
Exports	19.3	19.3	17.2	17.7	16.3	17.5	18.5	18.9	19.2	19.5	19.9
Imports	45.1	45.8	46.0	45.4	42.3	48.9	49.3	49.3	49.0	48.9	49.0
Services balance	2.7	3.1	3.1	2.9	3.2	3.5	3.6	3.7	3.9	4.1	4.3
Exports of services	13.2	13.0	12.9	12.9	10.7	11.8	12.3	13.0	13.6	14.2	14.8
Imports of services	10.5	9.8	9.8	10.0	7.5	8.3	8.7	9.2	9.7	10.1	10.6
Income balance	5.5	5.7	4.7	5.1	3.3	4.6	4.8	5.0	5.2	5.3	5.3
Compensation of employees	7.9	7.9	7.5	7.3	6.1	6.2	6.3	6.3	6.2	6.2	6.1
Income on direct and portfolio investment	-2.4	-2.1	-2.8	-2.2	-2.8	-1.5	-1.4	-1.2	-1.0	-0.8	-0.8
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current transfer balance	13.9	11.8	10.4	10.3	12.0	12.1	12.2	12.2	12.0	11.8	11.5
Remittances	8.5	7.6	7.1	7.1	7.9	8.4	8.5	8.4	8.3	8.1	7.9
Budget transfers	1.3	1.5	0.9	0.9	0.9	0.6	0.5	0.6	0.5	0.5	0.5
Other transfers	4.2	2.8	2.4	2.3	3.2	3.1	3.2	3.2	3.2	3.2	3.2
Capital and financial account balance	-9.3	-9.4	-12.1	-9.2	-10.4	-13.5	-6.8	-6.5	-7.0	-7.0	-7.1
Capital account balance	-0.2	-0.2	-0.3	-0.5	-0.6	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3
Financial account balance	-9.5	-9.6	-12.5	-9.6	-11.0	-13.8	-7.1	-6.9	-7.3	-7.3	-7.4
Foreign direct investment, net (inflows: "-")	-0.9	-1.4	-2.3	-3.9	-1.3	-1.8	-1.9	-1.9	-2.1	-2.1	-2.3
Portfolio investment and derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-8.6	-8.1	-10.2	-5.7	-9.7	-12.1	-5.3	-5.0	-5.3	-5.2	-5.1
Loans	-0.3	-0.6	-1.0	-1.0	-1.9	0.4	-0.5	-0.2	-0.5	-0.3	-0.3
General government, net	-0.6	-0.1	0.1	0.0	-1.0	-0.3	-0.3	0.1	0.4	0.5	0.5
Private sector, net	0.3	-0.5	-1.1	-1.0	-0.9	0.8	-0.3	-0.4	-0.8	-0.7	-0.8
Other capital flows, net	-8.3	-7.5	-9.3	-4.8	-7.8	-12.5	-4.8	-4.8	-4.8	-4.9	-4.9
Errors and omissions	-0.8	0.8	0.4	0.1	-0.7	0.2	0.0	0.0	0.0	0.0	0.0
Overall balance	4.8	4.4	2.0	0.0	2.2	2.3	-3.4	-2.9	-1.7	-1.2	-0.9
Financing	-4.8	-4.4	-2.0	0.0	-2.2	-2.3	3.4	2.9	1.7	1.2	0.9
Gross international reserves (increase: "+")	6.6	5.5	2.1	0.5	5.4	3.9	-1.8	-1.2	-0.6	-1.2	-1.1
Use of Fund credit, net	-0.5	-0.5	-0.5	-0.3	1.5	0.2	0.3	0.7	0.3	0.0	-0.1
Monetary authorities	-0.5	-0.5	-0.4	-0.3	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Purchases	0.1	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.6	0.5	0.5	0.4	0.2	0.2	0.1	0.1	0.1	0.1
General government	0.0	0.0	-0.1	0.0	1.9	0.5	0.5	0.8	0.5	0.1	0.0
Purchases	0.0	0.3	0.1	0.2	2.1	0.6	0.6	1.1	1.0	0.5	0.2
Repurchases	0.0	0.3	0.2	0.2	0.2	0.1	0.1	0.3	0.6	0.4	0.2
Exceptional financing	4.5	1.5	0.6	0.8	1.6	1.4	1.3	1.0	0.8	0.0	0.0
o/w											
European Commission	0.0	0.4	0.0	0.8	0.9	1.3	0.9	0.6	0.5	0.0	0.0
World Bank	0.0	0.1	0.5	0.0	0.5	0.0	0.4	0.3	0.3	0.0	0.0
Other official bilateral donors	0.0	1.1	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Memorandum items:											
Gross official reserves (millions of U.S. dollars) 2/	2,206	2,803	2,995	3,060	3,784	4,298	4,056	3,879	3,786	3,583	3,401
Months of imports of good and services	4.9	5.3	5.4	6.2	6.1	6.5	5.8	5.2	4.7	4.2	3.7
Percent of short term debt and CA deficit	103.0	85.5	83.2	89.5	90.2	96.9	88.8	81.8	76.7	68.3	91.8
Pct of short-term debt at remaining maturity	139.0	135.7	120.4	121.1	138.7	140.9	126.4	114.2	105.4	92.9	91.8
Pct of the IMF composite measure (floating) 3/	163.1	176.8	168.9	169.6	190.1	199.5	179.5	163.1	151.5	137.7	127.4
Current account balance	-3.6	-5.7	-10.6	-9.3	-7.5	-11.3	-10.2	-9.4	-8.8	-8.2	-8.0
Goods and services trade balance	-23.0	-23.3	-25.6	-24.7	-22.8	-27.9	-27.2	-26.7	-25.9	-25.3	-24.9
Export of goods and services	32.5	32.3	30.1	30.6	27.0	29.3	30.8	31.8	32.8	33.7	34.7
Import of goods and services	55.5	55.6	55.8	55.3	49.8	57.2	58.0	58.5	58.7	59.1	59.6
Foreign direct investment balance	0.9	1.4	2.3	3.9	1.3	1.8	1.9	1.9	2.1	2.1	2.3
	(Percent change of amounts in U.S.dollars, unless otherwise indicated)										
Exports of goods	3.4	19.8	5.8	7.2	-8.2	17.0	10.6	8.0	8.2	8.3	8.0
Exports of services	8.6	17.6	17.9	4.5	-17.2	20.3	9.2	11.3	11.6	11.2	10.8
Imports of goods	0.2	21.7	19.1	3.0	-7.2	26.5	5.1	5.9	6.0	6.2	6.2
Imports of services	-0.5	12.3	18.2	6.4	-24.9	20.3	10.4	11.9	11.6	11.2	10.8
Remittances and compensation	16.4	15.4	14.6	14.4	14.0	14.5	14.8	14.7	14.5	14.3	14.0
Remittances	-0.3	6.9	11.3	4.5	10.3	16.0	6.0	5.0	5.0	4.0	3.0
Compensation of employees	-8.3	18.8	12.1	2.8	-16.8	10.0	6.0	6.0	6.0	5.0	5.0
Debt service (pct of exports of goods and services)	13.1	12.6	14.7	13.4	15.8	12.2	11.4	11.5	11.9	12.1	12.4

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

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

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

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

Table 3a. Moldova: General Government Budget, 2016–2026

(Millions of Moldovan lei, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	45,947	53,379	57,996	62,949	62,655	73,848	80,873	91,467	103,288	115,824	128,799
Revenues	44,574	52,371	57,609	61,347	62,006	72,435	79,555	90,044	101,701	114,060	126,844
Tax revenues	42,502	49,990	54,816	58,458	58,987	69,032	76,295	86,509	97,783	109,732	122,080
Personal income	3,182	3,649	3,982	3,970	4,166	5,094	5,601	6,234	6,957	7,736	8,570
Corporate income	3,363	4,074	5,357	5,365	5,123	5,913	6,590	7,335	8,186	9,101	10,083
Property tax	404	546	564	580	582	668	704	770	843	937	1,038
VAT	14,564	16,870	18,616	20,183	19,775	23,937	26,278	30,612	35,304	40,001	44,714
Excises	4,546	5,950	5,683	6,222	6,469	7,243	8,042	9,144	10,333	11,753	13,137
Foreign trade	1,452	1,591	1,666	1,798	1,739	2,232	2,465	2,790	3,098	3,445	3,816
Other	1,722	1,796	1,793	1,935	1,898	2,060	2,131	2,372	2,647	2,943	3,260
Social Fund contributions	10,031	11,866	13,038	13,636	14,296	16,285	18,368	20,444	22,816	25,368	28,103
Health Fund contributions	3,240	3,648	4,118	4,768	4,940	5,600	6,117	6,809	7,599	8,449	9,359
Non-tax revenues	2,072	2,381	2,793	2,889	3,018	3,403	3,260	3,536	3,918	4,327	4,763
NBM profit transfers	0	0	0	0	218	350	133	148	165	184	203
Grants	1,373	1,009	387	1,603	650	1,413	1,318	1,422	1,587	1,765	1,955
Budget support	953	741	0	1,235	316	838	440	853	952	1,059	1,173
Project	420	268	387	368	334	575	878	569	635	706	782
Expenditure and net lending	48,434	54,524	59,609	65,972	73,275	85,924	96,209	105,953	116,461	129,118	142,773
Current expenditure	43,773	49,091	53,597	58,975	65,687	77,853	86,604	94,413	103,079	114,239	126,290
Wages	10,967	12,506	13,733	15,649	17,214	18,720	20,720	23,062	25,738	28,617	31,702
Goods and services	9,498	10,587	11,209	12,080	13,276	17,871	19,096	21,940	22,857	24,884	27,958
Interest payments	1,812	1,959	1,526	1,641	1,707	1,960	2,915	2,974	3,513	4,152	4,603
Domestic	1,477	1,581	1,129	1,213	1,333	1,531	2,328	2,762	3,345	4,004	4,469
Foreign	334	378	397	428	374	429	587	212	168	148	134
Transfers	18,198	20,383	23,411	24,616	28,848	32,323	37,297	39,540	43,809	48,710	53,961
Transfers to economy 1/	1,799	2,417	3,462	2,316	3,840	4,104	4,270	5,689	5,714	6,353	7,038
Transfers to households	16,399	17,966	19,949	22,301	25,008	28,219	33,027	33,851	38,095	42,356	46,923
Other current expenditure	3,299	3,655	3,718	4,989	4,642	6,980	6,575	6,897	7,163	7,876	8,066
Capital expenditure	4,661	5,434	6,012	6,997	7,588	8,070	9,605	11,540	13,382	14,879	16,483
One-off revenue and expenditure items 2/	-13,341	0	0	0	0	0	0	0	0	0	0
Overall balance (incl. one-off items)	-15,828	-1,145	-1,613	-3,023	-10,620	-12,076	-15,336	-14,486	-13,173	-13,293	-13,974
Overall balance (excl. one-off items)	-2,487	-1,145	-1,613	-3,023	-10,620	-12,076	-15,336	-14,486	-13,173	-13,293	-13,974
Primary balance (excl. one-off items)	-792	807	-293	-1,595	-9,469	-10,541	-13,406	-11,987	-10,162	-9,671	-9,928
Financing (excl. one-off items)	-576	-1,432	380	2,125	3,819	3,409	11,164	8,784	9,025	12,441	13,974
Budget financing	-2,112	-2,355	-1,157	693	752	2,042	10,041	6,878	6,823	9,904	10,427
Central government	-1,132	-1,870	-495	775	335	2,179	10,212	6,878	6,823	9,904	10,427
Net domestic	-466	-581	1,094	1,701	1,637	7,044	12,379	9,633	10,729	13,356	13,648
Net foreign (excl. project loans)	-761	-1,379	-2,288	-2,123	-1,128	-3,210	-2,666	-2,905	-4,056	-3,603	-3,371
Privatization	279	153	140	85	151	45	500	150	150	150	150
Others	-183	-63	559	1,112	-325	-1,700	0	0	0	0	0
Local governments	-794	-285	-136	211	0	-137	-171	0	0	0	0
Privatization	18	6	1	2	0	0	0	0	0	0	0
Social Fund	-96	-204	-364	-146	0	0	0	0	0	0	0
Health Fund	-91	4	-163	-147	417	0	0	0	0	0	0
Net project loans	1,536	924	1,538	1,613	3,067	1,367	1,123	1,906	2,202	2,537	3,548
Of which: Onlending (through commercial banks)	-40	-280	-105	-113	-649	-1,023	-1,118	-108	-120	-134	-148
Financing gap	3,063	2,577	1,233	898	6,800	8,666	4,172	5,702	4,148	852	0
World Bank	1,228	100	1,012	24	930	0	940	987	828	0	0
IMF	480	479	221	483	4,311	1,396	1,472	3,097	1,625	852	0
Others 3/	1,355	1,998	0	391	1,559	7,270	1,760	1,617	1,695	0	0
Financing for one-off items											
Government securities issued	13,341	0	0	0	0	0	0	0	0	0	0
					(Millions of Moldovan lei)						
Memorandum items:											
Public and publicly guaranteed debt	59,515	58,542	58,253	58,763	72,207	86,335	102,333	119,502	136,109	149,920	163,162
Domestic public debt 4/	23,860	24,312	24,960	25,550	30,371	35,147	44,313	52,361	59,916	69,309	78,624
Domestic expenditure arrears	101	40	55	44	0	0	0	0	0	0	0
External debt 5/	35,554	34,189	33,238	33,168	41,836	51,189	58,020	67,141	76,193	80,611	84,538

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

1/ As of 2016, capital transfers are excluded from transfers to economy and recorded under capital expenditure.
2/ Includes banking sector resolution costs in 2016.
3/ Includes SDR allocation in 2021 (about US$236 million).
4/ Starting with 2019, includes domestic guarantees and domestic debt of SOEs.
5/ Includes central bank liabilities to the IMF.

Table 3b. Moldova: General Government Budget, 2016–2026
(Percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	28.6	29.8	30.1	29.9	30.4	31.8	31.6	32.2	32.5	32.8	32.9
Revenues	27.7	29.3	29.9	29.2	30.0	31.2	31.1	31.7	32.0	32.3	32.4
Tax revenues	26.4	27.9	28.5	27.8	28.6	29.7	29.9	30.4	30.8	31.1	31.2
Personal income	2.0	2.0	2.1	1.9	2.0	2.2	2.2	2.2	2.2	2.2	2.2
Corporate income	2.1	2.3	2.8	2.6	2.5	2.5	2.6	2.6	2.6	2.6	2.6
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
VAT	9.1	9.4	9.7	9.6	9.6	10.3	10.3	10.8	11.1	11.3	11.4
Excises	2.8	3.3	3.0	3.0	3.1	3.1	3.1	3.2	3.3	3.3	3.4
Foreign trade	0.9	0.9	0.9	0.9	0.8	1.0	1.0	1.0	1.0	1.0	1.0
Other	1.1	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Social Fund contributions	6.2	6.6	6.8	6.5	6.9	7.0	7.2	7.2	7.2	7.2	7.2
Health Fund contributions	2.0	2.0	2.1	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Non-tax revenues	1.3	1.3	1.5	1.4	1.5	1.5	1.3	1.2	1.2	1.2	1.2
NBM profit transfers	0.0	0.0	0.0	0.0	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Grants	0.9	0.6	0.2	0.8	0.3	0.6	0.5	0.5	0.5	0.5	0.5
Budget support	0.6	0.4	0.0	0.6	0.2	0.4	0.2	0.3	0.3	0.3	0.3
Project	0.3	0.1	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Expenditure and net lending	30.1	30.5	31.0	31.4	35.5	37.0	37.6	37.2	36.7	36.6	36.5
Current expenditure	27.2	27.4	27.8	28.0	31.8	33.5	33.9	33.2	32.5	32.4	32.3
Wages	6.8	7.0	7.1	7.4	8.3	8.1	8.1	8.1	8.1	8.1	8.1
Goods and services	5.9	5.9	5.8	5.7	6.4	7.7	7.5	7.7	7.2	7.1	7.1
Interest payments	1.1	1.1	0.8	0.8	0.8	0.8	1.1	1.0	1.1	1.2	1.2
Domestic	0.9	0.9	0.6	0.6	0.6	0.7	0.9	1.0	1.1	1.1	1.1
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0
Transfers	11.3	11.4	12.2	11.7	14.0	13.9	14.6	13.9	13.8	13.8	13.8
Transfers to economy 1/	1.1	1.4	1.8	1.1	1.9	1.8	1.7	2.0	1.8	1.8	1.8
Transfers to households	10.2	10.0	10.4	10.6	12.1	12.1	12.9	11.9	12.0	12.0	12.0
Other current expenditure	2.1	2.0	1.9	2.4	2.2	3.0	2.6	2.4	2.3	2.2	2.1
Capital expenditure	2.9	3.0	3.1	3.3	3.7	3.5	3.8	4.1	4.2	4.2	4.2
One-off revenue and expenditure items 2/	-8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (incl. one-off items)	-9.8	-0.6	-0.8	-1.4	-5.1	-5.2	-6.0	-5.1	-4.1	-3.8	-3.6
Overall balance (excl. one-off items)	-1.5	-0.6	-0.8	-1.4	-5.1	-5.2	-6.0	-5.1	-4.1	-3.8	-3.6
Primary balance (excl. one-off items)	-0.5	0.5	-0.2	-0.8	-4.6	-4.5	-5.2	-4.2	-3.2	-2.7	-2.5
Financing (excl. one-off items)	-0.4	-0.8	0.2	1.0	1.9	1.5	4.4	3.1	2.8	3.5	3.6
Budget financing	-1.3	-1.3	-0.6	0.3	0.4	0.9	3.9	2.4	2.1	2.8	2.7
Central government	-0.7	-1.0	-0.3	0.4	0.2	0.9	4.0	2.4	2.1	2.8	2.7
Net domestic	-0.3	-0.3	0.6	0.8	0.8	3.0	4.8	3.4	3.4	3.8	3.5
Net foreign (excl. project loans)	-0.5	-0.8	-1.2	-1.0	-0.5	-1.4	-1.0	-1.0	-1.3	-1.0	-0.9
Privatization	0.2	0.1	0.1	0.0	0.1	0.0	0.2	0.1	0.0	0.0	0.0
Others	-0.1	0.0	0.3	0.5	-0.2	-0.7	0.0	0.0	0.0	0.0	0.0
Local governments	-0.5	-0.2	-0.1	0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Fund	-0.1	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health Fund	-0.1	0.0	-0.1	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net project loans	1.0	0.5	0.8	0.8	1.5	0.6	0.4	0.7	0.7	0.7	0.9
Of which: Onlending (through commercial banks)	0.0	-0.2	-0.1	-0.1	-0.3	-0.4	-0.4	0.0	0.0	0.0	0.0
Financing gap	1.9	1.4	0.6	0.4	3.3	3.7	1.6	2.0	1.3	0.2	0.0
World Bank	0.8	0.1	0.5	0.0	0.5	0.0	0.4	0.3	0.3	0.0	0.0
IMF	0.3	0.3	0.1	0.2	2.1	0.6	0.6	1.1	0.5	0.2	0.0
Others 3/	0.8	1.1	0.0	0.2	0.8	3.1	0.7	0.6	0.5	0.0	0.0
Financing for one-off items											
Government securities issued	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Public and publicly guaranteed debt	37.0	32.7	30.3	27.9	35.0	37.1	40.0	42.0	42.9	42.5	41.7
Domestic public debt 4/	14.8	13.6	13.0	12.1	14.7	15.1	17.3	18.4	18.9	19.6	20.1
Domestic expenditure arrears	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt 5/	22.1	19.1	17.3	15.8	20.3	22.0	22.7	23.6	24.0	22.8	21.6

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

1/ As of 2016, capital transfers are excluded from transfers to economy and recorded under capital expenditure.
2/ Includes banking sector resolution costs in 2016.
3/ Includes SDR allocation in 2021 (about US$236 million).
4/ Starting with 2019, includes domestic guarantees and domestic debt of SOEs.
5/ Includes central bank liabilities to the IMF.

Table 4. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2016–2022

(Millions of Moldovan lei, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022
						Proj.	Proj.
National Bank of Moldova							
Net foreign assets 1/	37,695	42,153	45,700	47,526	62,701	73,060	72,113
NFA (convertible)	38,041	43,045	46,855	48,513	62,700	73,054	72,107
Gross reserves	44,078	47,936	51,345	52,654	65,132	78,835	77,888
Reserve liabilities	6,037	4,891	4,490	4,141	2,433	5,781	5,781
Net domestic assets	-4,419	-5,156	-2,143	-675	-7,062	-11,995	-5,340
Net claims on general government	10,397	7,964	7,956	9,347	4,758	5,500	4,111
Credit to banks	-5,915	-9,217	-6,299	-5,403	-6,383	-10,110	-1,198
Other items (net)	-8,901	-3,903	-3,800	-4,619	-5,436	-7,385	-8,253
Reserve money	33,276	36,997	43,557	46,851	55,639	61,064	66,773
Currency in circulation	17,274	19,053	21,077	22,953	29,819	35,335	38,639
Banks' reserves	15,007	17,240	22,315	23,860	25,808	25,729	28,134
Required reserves	13,494	16,266	18,656	20,518	23,010	24,027	26,272
Other reserves	1,513	974	3,659	3,342	2,798	1,702	1,863
Monetary survey							
Net foreign assets	61,509	67,877	71,780	74,503	89,983	103,310	104,084
NFA (convertible)	55,633	61,871	65,793	68,481	82,939	95,914	96,318
Of which: commercial banks	17,593	18,826	18,938	19,968	20,240	22,860	24,211
Foreign assets of commercial banks	22,274	23,237	22,641	23,342	23,788	26,755	28,348
Foreign liabilities of commercial banks	-4,681	-4,411	-3,703	-3,374	-3,548	-3,895	-4,137
NFA (non-convertible)	5,876	6,006	5,987	6,022	7,044	7,396	7,766
Net domestic assets	8,999	9,233	11,378	15,448	17,641	21,097	31,954
Net claims on general government	12,612	11,455	12,353	13,438	14,142	14,279	19,548
Credit to economy	39,455	38,101	39,656	44,207	48,744	56,055	61,643
Moldovan lei	21,656	21,657	22,779	27,302	31,139	37,840	40,194
Foreign exchange	17,798	16,445	16,878	16,905	17,605	18,215	21,449
in U.S. dollars	891	962	985	982	1,023	993	1,117
Other items (net)	-43,068	-40,323	-40,631	-42,198	-45,245	-49,238	-49,238
Broad money (M3)	70,508	77,110	83,159	89,951	107,625	124,407	136,038
Broad money (M2: excluding FCD)	46,418	53,043	58,334	63,137	75,891	87,603	95,815
Currency in circulation	17,274	19,053	21,077	22,953	29,819	35,335	38,639
Total deposits	53,245	58,003	62,081	66,997	77,806	89,072	97,399
Domestic currency deposits	29,155	33,937	37,257	40,184	46,072	52,268	57,176
Foreign currency deposits (FCD)	24,090	24,067	24,824	26,814	31,734	36,804	40,223
in U.S. dollars	1,206	1,407	1,448	1,558	1,843	2,006	2,095
Memorandum items:							
Reserve money growth (percent change; annual)	12.1	11.2	17.7	7.6	18.8	9.8	9.3
Broad money growth (percent change; annual)	10.2	9.4	7.8	8.2	19.6	15.6	9.3
Credit to economy (percent change, annual)	-7.6	-3.4	4.1	11.5	10.3	15.0	10.0
in lei	-10.6	0.0	5.2	19.9	14.1	21.5	6.2
in foreign exchange ($ equivalent)	-5.4	8.0	2.4	-0.2	4.1	-2.9	12.5
Gross international reserves (millions of U.S. dollars)	2,206	2,803	2,995	3,060	3,784	4,298	4,056
Percent of domestic-currency broad money	95	90	88	83	86	90	81
Broad money multiplier	2.1	2.1	1.9	1.9	1.9	2.0	2.0

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

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

Table 5. Moldova: Financial Soundness Indicators, 2013–2021
(End-of-period; percent, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019				2020				2021	
	Dec	Dec	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Size																
Number of banks	14	14	11	11	11	11	11	11	11	11	11	11	11	11	11	11
Total bank assets (billions of lei)	76.2	97.5	69.1	72.9	79.5	83.2	82.9	86.8	87.5	90.7	92.5	94.7	98.1	103.8	104.5	109.7
Total bank assets (percent of GDP)	76.3	87.0	56.7	54.2	52.9	43.8	39.4	41.3	41.6	43.1	44.8	45.9	47.6	50.3	45.9	48.2
Capital adequacy																
Capital adequacy ratio	23.4	13.2	26.2	30.1	31.0	26.5	26.9	26.5	25.7	24.8	25.0	26.8	27.3	27.3	26.6	26.8
Liquidity																
Liquid assets (billions of lei)	25.7	21.1	28.7	35.9	44.1	45.4	43.3	44.8	44.1	45.9	46.5	48.6	48.7	52.4	52.7	54.8
Total deposits (billions of lei)	51.9	65.5	50.2	54.8	59.9	63.5	62.4	65.7	66.0	68.4	70.1	71.8	74.4	79.6	79.1	82.9
Liquidity ratio (liquid assets in percent of total deposits)	49.6	32.2	57.2	65.5	73.7	71.6	69.5	68.1	66.8	67.1	66.4	67.8	65.5	65.8	66.6	66.0
Liquid assets in total assets	33.8	21.6	41.5	49.2	55.5	54.6	52.3	51.6	50.4	50.6	50.3	51.4	49.6	50.6	50.4	49.9
Asset quality																
Gross loans (billions of lei)	42.2	40.8	38.2	34.8	33.5	35.5	36.5	38.8	39.6	40.4	42.0	41.5	43.5	45.6	46.6	49.9
Nonperforming loans (billions of lei)	4.9	4.8	3.8	5.7	6.2	4.4	4.2	4.1	4.0	3.4	3.6	3.6	3.7	3.4	3.4	3.7
Nonperforming loans as a share of total loans	11.6	11.7	9.9	16.4	18.4	12.5	11.5	10.6	10.2	8.5	8.5	8.7	8.6	7.4	7.2	7.5
Provisions to non-performing loans	83.6	88.4	85.5	81.8	80.6	86.6	90.4	93.8	94.9	93.7	93.3	94.9	95.3	101.0	101.4	94.9
Profitability																
Return on equity	9.4	6.1	12.8	12.0	11.1	11.6	14.4	15.5	15.6	14.6	10.4	7.8	9.1	8.7	9.3	10.2
Return on assets	1.6	0.9	2.1	2.0	1.8	1.9	2.4	2.6	2.6	2.5	1.8	1.4	1.6	1.5	1.6	1.7
Foreign currency assets and liabilities																
Foreign currency denominated liabilities in total liabilities	51.0	49.5	52.8	46.8	44.1	42.1	43.2	43.7	42.6	42.1	45.3	45.1	43.9	42.9	42.5	42.1
Foreign currency denominated assets in total assests	44.7	47.0	42.5	38.9	36.8	34.7	34.1	35.0	33.5	34.4	37.0	37.0	36.2	35.5	34.9	34.8
Foreign currency deposits in total deposits	44.7	52.1	52.5	46.5	42.8	41.1	41.9	42.6	41.8	41.0	44.7	44.2	42.9	41.8	41.4	41.3
Foreign currency denominated loans in total loans	40.4	39.8	42.1	44.3	41.7	38.5	36.9	35.6	33.8	33.3	33.0	31.1	30.1	30.5	29.4	28.2

Source: National Bank of Moldova.

Table 6. Moldova: Indicators of Fund Credit, 2019–2030 1/

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund obligations based on existing credit (millions of SDRs)												
Principal	59.0	53.4	35.3	23.2	41.6	76.5	57.0	34.5	28.5	23.0	20.0	7.0
Charges and interest	2.4	2.3	2.2	2.3	2.1	1.5	0.8	0.5	0.4	0.3	0.2	0.2
Fund obligations based on existing and prospective credit (millions of SDRs)												
Principal	59.0	53.4	35.3	23.2	41.6	76.5	57.0	40.9	48.2	61.1	78.5	76.2
Charges and interest	2.4	2.3	2.4	2.8	3.6	3.8	3.6	3.3	3.1	2.7	2.3	1.8
Total obligations based on existing and prospective credit												
Millions of SDRs	61.5	55.6	37.7	26.1	45.2	80.3	60.7	44.1	51.2	63.8	80.8	78.1
Millions of U.S. dollars	84.9	76.8	52.2	36.3	63.1	112.3	85.2	62.0	72.0	89.7	113.5	109.7
Percent of exports of goods and services	2.3	2.4	1.4	0.9	1.4	2.2	1.5	1.0	1.1	1.3	1.5	1.4
Percent of debt service 2/	39.6	30.9	24.4	21.9	37.8	53.7	47.7	37.0	31.8	33.1	36.6	35.3
Percent of GDP	0.7	0.6	0.4	0.3	0.4	0.7	0.5	0.4	0.4	0.5	0.5	0.5
Percent of gross international reserves	2.8	2.0	1.2	0.9	1.6	3.0	2.4	1.8	2.1	2.5	3.0	2.8
Percent of quota	35.6	32.2	21.8	15.1	26.2	46.5	35.2	25.6	29.7	37.0	46.8	45.3
Outstanding Fund credit based on existing and prospective credit												
Millions of SDRs	213.1	346.7	368.5	402.5	475.2	512.9	513.0	472.2	424.0	362.9	284.5	208.2
Millions of U.S. dollars	294.5	478.8	511.4	560.4	663.4	718.0	720.8	663.4	595.7	509.9	399.7	292.6
Percent of exports of goods and services	8.1	14.8	13.4	13.4	14.5	14.3	13.1	11.0	9.3	7.4	5.4	3.7
Percent of debt service 2/	137.3	192.8	238.9	337.6	398.1	343.5	403.7	395.8	263.4	188.2	129.0	94.1
Percent of GDP	2.5	4.0	3.9	4.1	4.6	4.7	4.4	3.8	3.2	2.6	1.9	1.3
Percent of gross international reserves	9.6	12.7	11.9	13.8	17.1	19.0	20.1	19.5	17.0	14.1	10.7	7.6
Percent of quota	123.6	201.0	213.6	233.3	275.4	297.4	297.4	273.7	245.8	210.4	164.9	120.7
Net use of Fund credit (millions of SDRs)	-25.4	133.5	21.9	33.9	72.7	37.8	0.1	-40.9	-48.2	-61.1	-78.5	-76.2
Disbursements and purchases	33.6	186.9	57.1	57.1	114.3	114.3	57.1	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	59.0	53.4	35.3	23.2	41.6	76.5	57.0	40.9	48.2	61.1	78.5	76.2
Memorandum items:												
Exports of goods and services (millions of U.S. dollars)	3,651	3,239	3,811	4,193	4,584	5,024	5,501	6,005	6,428	6,881	7,366	7,885
Debt service (millions of U.S. dollars) 2/	214.4	248.3	214.1	166.0	166.6	209.0	178.5	167.6	226.19	271.0	309.8	310.8
Nominal GDP (millions of U.S. dollars) 2/	11,972	11,912	13,024	13,595	14,405	15,339	16,308	17,307	18,527	19,832	21,229	22,725
Gross International Reserves (millions of U.S. dollars)	3,060	3,784	4,298	4,056	3,879	3,786	3,583	3,401	3,511	3,621	3,750	3,860
Average exchange rate: SDR per U.S. dollars	0.72	0.72	0.72	0.72	0.72	0.71	0.71	0.71	0.71	0.71	0.71	0.71
Quota (millions of SDRs)	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5

Sources: IMF staff estimates and projections.

1/ Assume repurchases are made on obligations schedule.

2/ Total debt service includes IMF repurchases and repayments.

Table 7. Moldova: External Financing Requirements and Sources, 2016–2025
(Millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
								Proj.		
Gross financing requirement 1/	528	795	1545	1511	1283	1825	1766	1784	1850	1879
of which: fiscal financing requirements	154	139	73	51	393	250	222	289	200	39
Identified financing sources 2/	847	1132	1683	1431	1477	2080	1272	1306	1479	1597
Change in gross reserves (increase = +)	531	531	236	60	637	514	-242	-178	-92	-203
Financing gap	212	193	98	141	443	259	252	300	279	79
Official Financing	212	193	98	141	443	259	252	300	279	79
Identified program financing	177	150	65	94	188	181	174	144	122	0
European Commission	47	36	0	93	110	171	117	94	82	0
World Bank	62	5	60	1	54	0	50	50	40	0
Other official donors	68	108	5	0	24	10	7	0	0	0
Fund Program	35	44	33	46	255	78	78	157	157	79
of which: budget support	24	26	13	28	249	78	78	157	79	39

Sources: Moldovan authorities and IMF staff projections.

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

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

Table 8. Moldova: Proposed Schedule of Reviews and Disbursements/Purchases 1/

	Available on or after	Amount of Disbursement/Purchase (millions of SDRs)			Percent of Quota			Conditions
		Total	ECF	EFF	Total	ECF	EFF	
1.	December 20, 2021	57.15	19.05	38.10	33%	11%	22%	Board approval of the Arrangement
2.	September 21, 2022	57.15	19.05	38.10	33%	11%	22%	Observance of end-June 2022 performance criteria, continuous performance criteria, and completion of first review
3.	March 21, 2023	57.15	19.05	38.10	33%	11%	22%	Observance of end-December 2022 performance criteria, continuous performance criteria, and completion of second review
4.	September 21, 2023	57.15	19.05	38.10	33%	11%	22%	Observance of end-June 2023 performance criteria, continuous performance criteria, and completion of third review
5.	March 21, 2024	57.15	19.05	38.10	33%	11%	22%	Observance of end-December 2023 performance criteria, continuous performance criteria, and completion of fourth review
6.	September 21, 2024	57.15	19.05	38.10	33%	11%	22%	Observance of end-June 2024 performance criteria, continuous performance criteria, and completion of fifth review
7.	March 1, 2025	57.10	19.00	38.10	33%	11%	22%	Observance of end-December 2024 performance criteria, continuous performance criteria, and completion of sixth review
	Total	400.00	133.30	266.7	232%	77%	155%	

Source: IMF staff estimates.

1/ Moldova's quota is SDR 172.5 million.

Annex I. Risk Assessment Matrix 1/

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Conjunctural shocks and scenario				
Unexpected shift in the Covid-19 pandemic. • **Downside.** The disease proves harder to eradicate (e.g., due to difficulties in finding/distributing a vaccine), requiring more containment efforts and impacting economic activity directly and through persistent behavioral changes (prompting costly reallocations of resources). Monetary and fiscal policy response is insufficient amid dwindling policy space and concerns about debt sustainability. Financial markets reassess real economy risks leading to a repricing of risk assets, unmasking of debt-related vulnerabilities, and weakening banks and nonbank financial intermediaries–forcing them to reduce credit (further weighing on growth). Financing difficulties extend to vulnerable sovereigns, leading to cascading debt defaults, capital outflows, depreciation pressures, and in some cases inflation. Pandemic-prompted protectionist actions (e.g., export controls) reemerge, disrupting trade and global value chains.	High	**Short to Medium Term**	High • Higher fiscal costs to (i) contain virus fallout and strengthen the health care system; (ii) support businesses facing distress (e.g. losses, curtailed activity); and (iii) protect affected households via social transfers (layoffs/ unemployment benefits). • Protectionist measures and continued disruptions in global trade, remittances, and capital flow patterns from a prolonged episode could affect Moldova's economy and the balance of payments. • The government may decide to adopt export restrictions/controls. • Mounting financing pressures due to potential loss of donor support.	• Continue growth-friendly fiscal policy, strengthen efficiency of public spending, and reprioritize outlays. • Stand ready to adjust monetary policy in response to abrupt shifts in the inflation outlook, while ensuring adequate policy space to further support the economy, if needed. • Address structural bottlenecks through continued reforms to improve competitiveness and reduce trade costs. • Continue sound monitoring/ supervision of the financial system to promptly address any signs of market distress. • Refrain resorting to any protectionist measures. • Maintain a flexible exchange rate regime.

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

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
• **Upside.** Alternatively, recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine and/or a faster-than-expected behavioral adjustment to the virus that boosts confidence and economic activity.	Low	**Short to Medium Term**	Medium Faster, smoother recovery.	• Maintain a prudent macroeconomic policy mix supported by structural reforms to effectively manage the transition and sustain the recover. • Closely monitor emerging risks
Widespread social discontent and political instability. Social tensions erupt as the pandemic and inadequate policy response cause economic hardship (including unemployment, higher incidence of poverty, and shortages and higher prices of essentials) and exacerbate preexisting socioeconomic inequities. Economic activity is disrupted. Growing political polarization and instability (e.g., contested elections) weaken policymaking and confidence.	High	**Short to Medium Term**	Medium • Economic activity and supply disruptions are likely, as elevated social tensions and heightened insecurity ensue from more severe and prolonged job losses and hampered business activity. • Loss of confidence in the government's ability to facilitate a strong recovery may fuel political instability and aggravate economic uncertainty. • Risk of policy reversals by the government to appease rising protest demands, and/or mitigate heightened instability.	• Strengthen budget outlays, especially those geared towards social spending in support of distraught households, and in support of businesses and economic recovery. • Communicate clearly the government's policy deliverables to the general population and to economic agents, to ascertain the credibility of its intentions and provide certainty, clarity, and assurances to market participants on the path of adjustment and recovery. • Enhance rule of law and strengthen anti-corruption measures, including those aimed at increasing transparency and accountability in public spending. • Avoid policy reversals.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Volatility in the oil market. Supply shortages from the energy market turbulence and rising demand in line with the post-pandemic recovery keep energy prices elevated, raising uncertainties about possible ramp-up in production (capacity) and the impact of the pace of the recovery in demand on price volatility.	Medium	**Short term**	**High** Higher global energy prices will raise the energy regulator's fuel import costs, translating into more expensive supply of energy products through the spot market domestically. However, the signing of a new import contract with Gazprom will help reduce high price volatility.	• Adjust local energy tariffs. • Allocate additional budget resources to targeted measures that shield most vulnerable segments of the population through transparent processes. • Extent support to the energy regulator to ensure energy sector security. Closely monitor inflation.
Intensified geopolitical tensions and security risks (e.g., in response to pandemic) cause socio-economic and political disruption, disorderly migration, higher commodity prices (if supply is disrupted), and lower confidence.	High	**Short Term**	**High** • Tensions in major regional trade partners and donors could disrupt Moldova's growth trajectory through trade, remittances, and financial flows, aggravate domestic and external financing constraints, and undermine energy security.	• Diversify the economy and improve competitiveness via structural reforms. • Improve effectiveness of donor-financed projects. • Invest in new infrastructure, technology, and labor skills. • Rebuild fiscal and financial buffers.
Structural risks				
Accelerating de-globalization. Geopolitical competition and fraying consensus about the benefits of globalization lead to further fragmentation. Reshoring and less trade reduce potential growth.	High	**Short to Medium Term**	**Low** • Associated changes in global trade, remittances, and capital flow patterns could affect Moldova's economy and the balance of payments.	• Continue growth-friendly fiscal policy and reforms to improve competitiveness and reduce trade costs. • Maintain flexible exchange rate regime

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

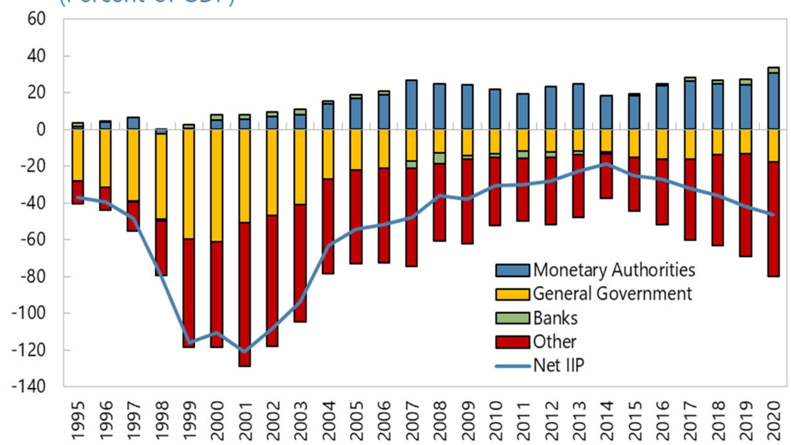
Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions (medium probability). A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility (low probability).	**Medium**	**Short to Medium Term**	**High** • Adverse weather conditions would directly affect economic and labor conditions in the large agricultural sector, put pressures on domestic food prices, and reduce export flows. • Lower potential growth.	• Diversify the economy and improve competitiveness via structural reforms. • Use monetary policy to address second round effects of commodity prices shocks.

Annex II. External Sector Assessment

Moldova's external position in 2020 was broadly in line with the level implied by medium-term fundamentals and desirable polices. The current account deficit is projected to increase further in 2021, reflecting a stronger pick up in imports. Gross official reserves are above adequate levels indicated by the IMF's reserve adequacy metric. Private sector financial flows (largely remittances) have been higher-than-expected in 2020 and are envisaged to stay strong in 2021, buoyed by global activity picking up. A new arrangement with the Fund is envisaged to help catalyze greater external financing. To increase competitiveness of the economy, structural reforms should focus on strengthening governance, reducing non-tariff trade barriers, boosting innovation, and improving access to finance and human capital.

1. **Moldova's net investment position worsened in 2020.** The net international investment position (NIIP) continued its decline in 2020 from 2019 (Figure 1), reflecting higher FDI liabilities and net inflow under currency and deposits (in 2019) and loans in 2020. Overall, Moldova's risk of debt distress is assessed to be low. Nevertheless, high external private debt could pose potential rollover risks.

Figure 1. NIIP Composition by Sector
(Percent of GDP)

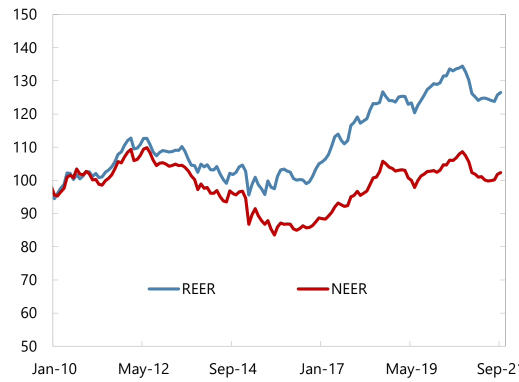


Sources: IMF BOP; and IMF staff calculations.

2. **The current account deficit narrowed to 7.5 percent of GDP in 2020 (from 9.3 percent deficit in 2019).** The improvement was primarily driven by significant import compression (by about 10 percent annually) on reduced domestic demand and border closures during the pandemic. Exports of goods and services contracted by less, affected by the drought, weak global demand, and pandemic-related travel restrictions. However, remittances inflows remained robust, rising by 10.3 percent year on year. In the first eight months of 2021, commodity imports grew by 32.5 percent annually, while commodity exports rebounded by about 17 percent, widening the trade deficit. For 2021, current account deficit is expected to expand to 11.3 percent of GDP in line with the ongoing recovery but is envisaged to gradually improve to 8 percent of GDP over the medium term, driven by a recovery in imports with a rebound in growth.

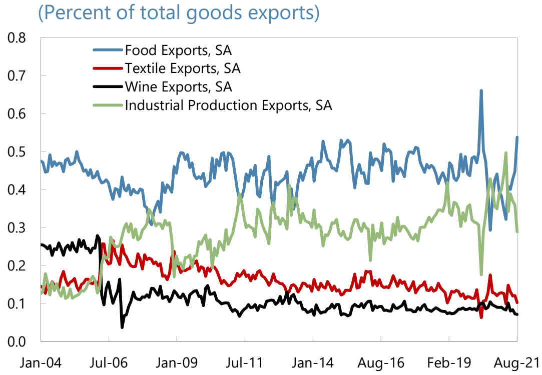
3. The real exchange rate continued to strengthen in 2020 before depreciating in 2021. The Lei appreciated through 2020, supported by a rebound in inflow of private transfers from abroad and the IMF and the EU financial assistance, coupled with reduced foreign currency demand due to the pandemic-induced import compression. Both the real and nominal effective exchange rate depreciated by about 6 percent y-o-y in September 2021, reflecting a pick-up in economic recovery as imports rebounded strongly (Figure 2).

Figure 2. Real Effective Exchange Rates
(2010=100)



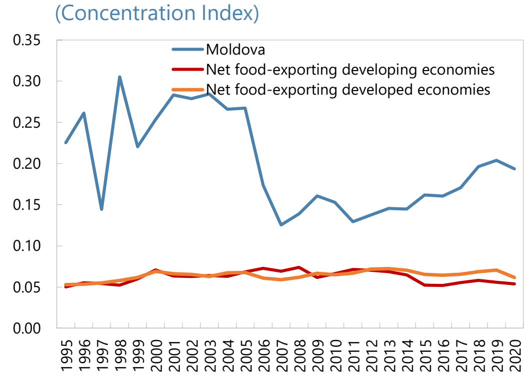
4. Export diversification shows a mixed progress. Moldova's export markets are gradually becoming more diversified, with participation in European Union (EU) markets more than doubling over the last decade. Export commodity basket has, however, remained largely unchanged. Agricultural products comprise about 60 percent of the total commodity exports and export concentration worsened in the last five years (Figures 3 and 4). Trade in services continues to show positive trends since 2016.

Figure 3. Structure of Exports of Goods
(Percent of total goods exports)



Sources: National authorities; and IMF staff calculations.

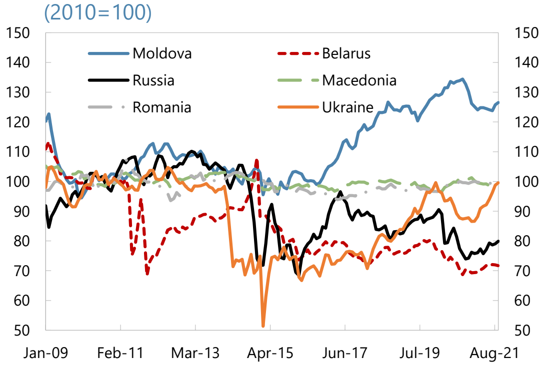
Figure 4. Export Basket Concentration
(Concentration Index)



Sources: UNCTAD; and IMF staff calculations.

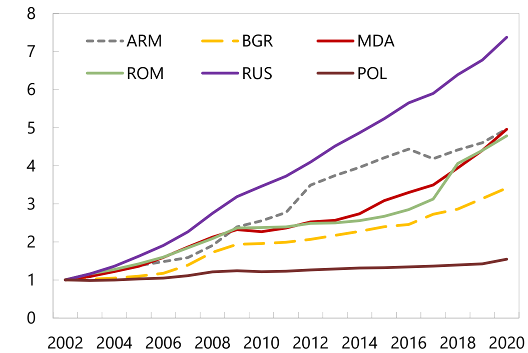
5. External price competitiveness worsened markedly. Unit labor costs in Moldova remain below those of its more advanced neighbors, but rising nominal wages during 2014–2020, currency appreciation, and low productivity growth (Figures 5–8) have significantly eroded the competitive advantage Moldova has enjoyed relative to its neighbors and main competitors. Since 2002, Moldova's unit labor costs (in real terms) remained largely stable, whereas they decreased significantly in neighboring countries. Additionally, Moldova's productivity relative to the EU average has stagnated since 2008/09, while average gross wages increased and the REER appreciated. As such, relative price competitiveness has worsened.

Figure 5. Real Effective Exchange Rates
(2010=100)



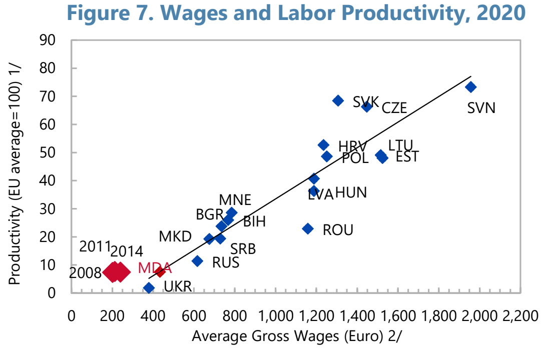
Source: IMF INS.

Figure 6. Unit Labor Costs
(Index, 2002 = 1)



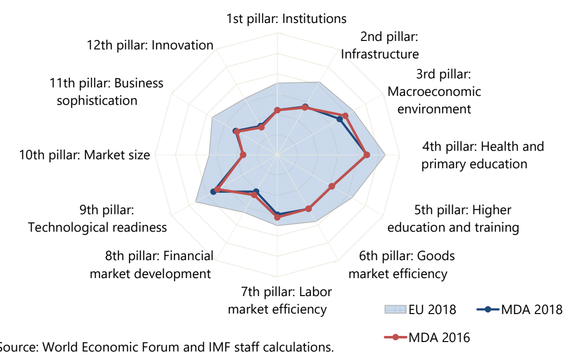
Sources: IMF *WEO*; Haver Analytics; and IMF staff calculations.

Figure 7. Wages and Labor Productivity, 2020



Sources: Haver Analytics; IMF *World Economic Outlook*; and IMF staff calculations.
1/ Output per head based on 2020 IMF WEO GDP and employment data.
2/Average gross wages for the total economy.

Figure 8. Global Competitiveness Index



Source: World Economic Forum and IMF staff calculations.
Note: There is some uncertainty around Moldova's point estimates.

6. **Gross foreign exchange reserves remain adequate.** Gross reserves increased in 2020, boosted by emergency financing by donors to mitigate COVID-19 pandemic. At end-December 2020, gross international reserves stood at US$3.78 billion from about US$3.1 billion in 2019, translating to 190 percent of the Fund's composite reserve adequacy metric. During 2020, NBM net foreign exchange purchases increased by US$123 million to cushion excessive fluctuations in the exchange rate due to pandemic-induced shock to the economy. In the first ten months of 2021, net foreign purchases declined by US$31.2 million, as effects of the pandemic on the economy subsided. Financial flows in 2021 remained resilient, buoyed by support from development partners, the recent SDR allocation (about US$236 million), and remittances. Gross reserves are, however, projected to decline to about 6½ months of imports of goods and services in 2021, reflecting an uptick in import recovery, and further to about 4 months of imports in the medium term, still above the Fund's composite reserve adequacy metric.

External Assessment[1]

[1] Based on IMF, 2019, The Revised EBA-Lite Methodology.

7. Staff assesses the exchange rate to be slightly overvalued based on two methodologies, suggesting that Moldova's external position at end-2020 was broadly in line with the level implied by medium-term fundamentals and desirable policy settings (Text table). The actual current account deficit for Moldova narrowed to 7.5 percent of GDP in 2020, from over 9 percent of GDP in 2019. Two models are used to assess the degree of exchange rate misalignment. In the Current Account (CA) model, the negative output gap relative to the world in 2020 would have reduced the actual CA deficit by 1 percentage point of GDP. Adjustors applied to remittances (0.38 percent of GDP) and tourism (0.07 percent of GDP) to exclude transitory effects of the pandemic on the CA balance would have increased the CA deficit by 0.5 percent of GDP. As such, the adjusted current account is estimated at -8.0 percent of GDP. The current account norm—the level consistent with fundamentals and desirable policies—was estimated as -7.5 percent of GDP, the same level as the actual current account deficit. This implies a model-estimated current account gap of -0.5 percent of GDP. The EBA-lite methodology identified a policy gap of 8.6 percent of GDP, primarily driven by a relatively tighter fiscal policy stance and a stronger reserve accumulation in 2020, vis-à-vis the rest of the world. Based on an elasticity of -0.3, the REER gap consistent with the staff-assessed CA gap suggests an overvaluation of the Lei of about 2 percent. The other model, the EBA-lite REER approach, estimates a larger overvaluation in the Lei of about 6 percent in 2020. Based on these metrics and given a higher than usual uncertainty due to the political and health developments in 2020, staff views the exchange rate to be broadly in line with the level implied by medium-term fundamentals and desirable policy settings. Given the 2021 developments in the external sector—such as an uptick in imports and a projected weaker CA deficit—the CA gap could widen, which could shift the overall assessment of the external position.

Moldova: Model Estimates for 2020 (in percent of GDP)

	CA model	REER model
CA-Actual	**-7.5**	
Cyclical contributions (from model) (-)	1.0	
COVID-19 adjustor (+) 1/	0.5	
Adjusted CA	**-8.0**	
CA Norm (from model) 2/	**-7.5**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-7.5**	
CA Gap	**-0.5**	**-1.9**
o/w Relative policy gap	8.6	0.1
Elasticity	-0.3	-0.3
REER Gap (in percent)	**1.5**	**6.2**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on remittances and tourism.

2/ Cyclically adjusted, including multilateral consistency adjustments.

8. Addressing long-standing vulnerabilities should improve the business climate and bolster market competition, ultimately raising competitiveness and accelerate income convergence between Moldova and European peers. In recent years, the Moldova Global Competitiveness Index remained largely unchanged with slow or no progress (see Figure 8). Moldova also backtracked on some important indicators that determine its innovative capacity and hinder potential growth. Given the current juncture, reform priorities should focus on macro-critical governance and institutional reforms to strengthen transparency and accountability, public policy predictability, financial institutions, and foster deregulation and competition. Comprehensive reforms in the SOE sector are also urgently needed. These reforms would allow to improve the business climate, human capital, and institutional quality with important payoffs for exports and growth. However, such efforts will require substantial investments in quality and standards for Moldova's economy and will happen only gradually. These reforms have also a potential to generate significant fiscal savings that can be put to more efficient use and improve the composition of spending in the government budget. Increasing private domestic investments while also building-up public savings will help to accelerate Moldova's income convergence towards the European peers and ensure sustainable and balanced growth.

9. Overall staff assessment. Overall, the external balance does not appear to be a major source of risk for Moldova's external sustainability. The COVID-19 pandemic had a negative effect on external sector balance sheets. The near-term external risks arise mainly from heightened uncertainty about the evolution and duration of the pandemic and the global energy market turbulence, and the pace of the global recovery. Potential intensification of global trade and geopolitical tensions would further limit the scope for recovery and diversification to new export markets and might lead to a slowdown in remittance inflows. These risks are mitigated by the authorities' reform commitment and broad-based political support for Fund-supported governance-focused reforms. The new ECF/EFF arrangements are expected to catalyze greater external financing, while reforms could give rise to large medium-term growth dividends.

Appendix I. Letter of Intent

Chişinău, November 30, 2021

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

Dear Ms. Georgieva:

1. Our country has been hit hard by the COVID-19 pandemic. The depth and duration of the pandemic continue to strain efforts to mitigate the lingering economic and social effects. The emergence of a more contagious and lethal variant of the virus and the resumption of social mobility have pushed daily infections and fatalities to new highs. While the rollout of vaccinations has contributed to slowing down cases, coverage of vaccines remains low at only a quarter of the population. Since taking office in August 2021, we have been implementing policies to tackle the pandemic, providing policy clarity and direction after a period of political fragmentation.

2. After the deepest downturn in 2020, the economy is rebounding, but significant risks beset the outlook. Longstanding structural weaknesses, including the weak rule of law, entrenched poverty, social-economic vulnerability, rapid population aging, and emigration, impair the pursuit of developmental objectives. While we remain committed to progressively shift our policy focus towards mitigating the pandemic's long-term damage to our economy and securing a sustainable, inclusive, and more robust recovery, the unfolding energy crisis, new COVID-19 waves of infections, and long-standing weaknesses of domestic institutions could impede the reform momentum and amplify scarring effects. Against this challenging context, the government requests blended support in the cumulative amount of SDR 400 million (232 percent of quota) for a 40-month arrangement under the Extended Credit Facility and Extended Fund Facility to support our economic program from January 2022–May 2025. The support will bolster our reform agenda and help catalyze external financing.

3. We are recalibrating our policies to sustain the economic recovery and launch ambitious multi-year governance and institutional reforms. We stand ready to reverse imbalances accumulated in the last three decades. We have since developed a comprehensive package of prudent macroeconomic policies and structural reforms to create a solid foundation for long-term growth, while safeguarding debt sustainability. We commit to fortify fiscal governance and close significant developmental gaps with European peers. Our monetary and financial policies will strengthen policies and foster institutional independence, resilience, and good governance. We will improve the business environment by facilitating deregulation and competition. We have already taken significant strides to launch the fight against corruption, with future efforts to be guided by recommendations of the recent Country Governance Diagnostic assessment prepared together with the IMF. We

underwent the update safeguards assessment covering the central bank's governance and control frameworks before the negotiations.

4. The government believes that the solid policies and measures outlined in the attached Memorandum of Economic and Financial Policies (MEFP) are appropriate to achieve the program objectives for sustaining the economic recovery and the major structural and development reforms needed to transform it. We stand ready to take additional measures, as appropriate, to achieve these objectives. We will consult with IMF staff before adopting such measures, or in advance of revisions to the policies contained in this MEFP, or before adopting new measures that would deviate from program goals, consistent with IMF policies on such consultations.

5. In line with our commitment to transparency, we authorize the IMF to publish this letter, the MEFP and its attachments, and the accompanying staff report.

Sincerely yours,

/s/
____
Natalia Gavrilița
Prime Minster

/s/
____
Andrei Spînu
Deputy Prime Minister,
Minister of Infrastructure and Regional Development

/s/
____
Octavian Armașu
Governor
National Bank of Moldova

/s/
____
Dumitru Budianschi
Minister of Financde

/s/
____
Sergiu Gaibu
Minister of Economy

Attachment I. Memorandum of Economic and Financial Policies

I. Macroeconomic Developments and Outlook

1. The COVID-19 pandemic has severely impacted the Moldovan economy. Broad-based reforms under the 2016 IMF-supported program successfully restored macro-financial stability and strengthened the financial sector. However, after an average growth above 4 percent in 2016–19, economic activity contracted by 7 percent in 2020, held back by temporary restrictions, disruption of supply chains, and reduced global demand, as well as the impact of a severe drought. After a good start, vaccinations are progressing slowly with about only a quarter of the population fully inoculated, while the delta variant has driven an increase in infections.

2. The economic recovery is taking root.

- *Growth*. Real GDP is expected to grow by 7½ percent in 2021. With improved mobility, domestic demand rebounded strongly in 2021H1 (11 percent y/y), mainly on account of robust private consumption, supported by strong remittances and robust growth in wages and consumer credit.

- *Inflation*. CPI inflation has increased steadily throughout 2021, driven by accelerating core inflation, reflecting a recovery in domestic demand, as well as surging energy, commodity, and food prices on global markets. Inflationary pressures are expected to persist well into the next year.

- *Fiscal position*. Budget execution faltered through mid-2021 due to political volatility and uncertainties over external financing, resulting in suboptimal support for households and businesses. Coupled with the resumption of external financing, consistent revenue overperformance eased budget constraints and supported spending execution in the second half of the year, including on health, social assistance, and capital projects. In November, the parliament adopted a supplementary budget for 2021 to increase allocations for the health sector and unemployment support schemes, introduce energy subsidies to mitigate the impact of surging global natural gas prices, and reduce the VAT rate for the hospitality sector for the duration of the health emergency. Also, the minimum pension was increased to the subsistence level. The general government deficit is projected to reach 5 percent of GDP in 2021, and public debt is projected to increase to 34.4 percent of GDP.

- *External*. While the ongoing recovery and high commodity prices have worsened Moldova's external position, significant international reserves mitigate external vulnerabilities.

- *Monetary and financial policies*. Since the inception of the crisis, monetary policy was accommodative as the NBM cut its base rate by a cumulative 485 basis points and reduced MDL reserve requirements by 15 percentage points. Beginning July 2021, the NBM shifted to a tightening cycle and hiked the base rate by 285 basis points on account of a worsening inflation outlook. The interest corridor was narrowed by 1 percentage point to incentivize savings. At early stages of the pandemic, the NBM provided temporary forbearance for loans subject to payment deferments, while the NCFM issued guidance to lower effective interest rates and institute loan payments deferrals for non-bank financial institutions.

3. **A strong recovery is expected in the medium term, but the outlook is subject to severe downside risks.** The economic recovery is expected to be sustained over the medium term, supported by strong domestic and external demand and agreed reforms under the program. While inflation may temporarily exceed the upper band around the target, it is projected to revert towards the NBM target by end-2022. The current account deficit is expected to narrow significantly but would remain elevated at around 8 percent of GDP due to planned increases in developmental spending. However, adverse risks to the outlook remain significant, including from new infection outbreaks and virus variants, slower-than-expected recovery in trading partners, soaring energy prices, or reform fatigue.

II. Policy Framework for 2022–25

4. **Significant developmental challenges have been exacerbated by the capture of state institutions and deeply entrenched corruption over the past decade, especially in the judiciary and law enforcement.** These problems eroded institutional capacities and had a significant impact on the welfare of citizens, hindering income convergence with European peers. Structural constraints include weak rule of law and anti-corruption frameworks, entrenched poverty, inequality and socio-economic vulnerability, a shortage of well-paid jobs, poor and inaccessible infrastructure, significant exposure to climate change, weak education and health outcomes, and rapid population ageing and emigration.

5. **Our program aims at sustaining the economic recovery, launching an ambitious governance and institutional reforms agenda, and addressing pressing developmental needs.** Prudent macroeconomic policies and ambitious structural reforms to bolster the rule of law, reduce corruption, and strengthen fiscal and financial governance will help sustain the post-pandemic recovery, facilitate external financing, and create a solid foundation for sustainable and inclusive long-term growth while safeguarding debt sustainability.

A. Fiscal Policy: Sustain Recovery, Target Development, Strengthen Governance

6. **Our near-term fiscal policy objective is to mitigate the impact of the ongoing pandemic and unfolding energy crisis.** We approved the 2022 budget in line with the macro-framework agreed with the IMF staff to bring the general government deficit to 6 percent of GDP **(prior action).** In the **health sector**, we provided more funds (0.3 percent of GDP) to the Health Fund and regional hospitals to ensure adequate health capacity in the face of the pandemic. On

social protection, we allocated additional spending (0.3 percent of GDP) to services for children and disabled, while also increasing income tax credits for these categories; and raised minimum pensions to the subsistence level. To support **businesses**, we increased funding (0.4 percent of GDP) of a technical and partial unemployment subsidy scheme, approved higher transfers to the Agricultural Fund, and temporary reduced VAT rate for the hospitality sector. To mitigate the **impact of surging energy prices** (0.6 percent of GDP), we increased heating allowance for low-income households; and introduced a temporary targeted gas subsidy for households and businesses. In pursuit of our **developmental goals**, and building on improved execution capacity, we have increased our spending on infrastructure investment to 3.7 percent of GDP, (0.2 percent of GDP higher than in 2021). The deficit will be financed by funding from our development partners, notably the EU's macro-financial assistance, World Bank's development policy financing, the IMF, and from domestic sources.

7. Fiscal policy under the program will balance development spending with debt sustainability. Our fiscal stance under the program will be anchored by keeping total public debt below 45 percent of GDP to maintain sufficient buffers against contingent liability risks and shocks. In line with this objective, our medium-term budget framework will target general government deficits of about 3½-4 percent of GDP in 2024-26. Underpinning this will be development-focused spending—prioritizing capital spending on roads, energy diversification, and water, investments in health and education, as well as supporting SME growth and job creation—supported by reforms to mobilize domestic revenues, enhance spending efficiency, and strengthen fiscal governance and transparency.

Reforms to Strengthen Revenue Mobilization

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

- **Publish a comprehensive tax expenditure analysis of VAT and income taxes (end-June 2022 structural benchmark)** to identify tax relief provisions to be phased out to eliminate abusive practices, tax system inefficiencies, and mobilize revenues. We will also institutionalize tax expenditure reviews as part of our annual state budget planning process starting in 2022.

- **Continue strengthening tax administration.** We will continue to improve the organizational structure and capacity of the State Tax Service (STS) in line with IMF TA, including by (i) operationalizing the integrated taxpayer register **(end-June 2022 structural benchmark)**; (ii) strengthening STS capacity to investigate and refer tax crimes for prosecution by signing relevant protocols, addressing gaps in legislation, and organizing training and technical assistance from the IMF; (iii) launching the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes by September 1, 2023; and (iv) introducing a General Anti-Avoidance Rule provision in the tax code to counter domestic and international abusive tax practices.

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

- **Advance customs reforms in a number of important areas.** The Parliament approved a new customs code, developed in consultations with the EU, that aims to align our customs regulations and procedures with international best practices and bring it closer to EU directives effective January 1, 2023. In line with our commitments with the EU and to strengthen deterrence capacity of anti-smuggling policies, we will amend relevant legislation to reduce the legal threshold for determining smuggling as a criminal offence and raise administrative fines for such violations. We will amend the criminal code to define the smuggling offense base to include duties, taxes, and other fees. We also intend to ratify the WHO Protocol to Eliminate Illicit Trade in Tobacco Products in the course of this program, with the aim of reducing revenue leakages and smuggling.

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

Reforms to Improve Budget Quality and Fiscal Transparency

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

- **Institutionalize spending reviews.** We see spending reviews as critical for identifying the scope for efficiency improvements and cost effectiveness in key sectors. We completed a spending review for the education sector in 2018, followed by a review for the agricultural sector in 2021, and plan to launch a spending review in the health sector in 2022. We will implement relevant recommendations from the completed spending reviews.

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

- **Strengthen public procurement**. In November 2020, we amended secondary legislation on procurement to require provision and publication of beneficial owner information as part of the regular package of documents submitted for tenders. We also published a report on pandemic-related spending for 2020, including beneficial owner entities contracting with the government.

In June 2021, we also published an audit report by the Court of Accounts on the use of health resources to combat the pandemic in 2020. We now publish the beneficial ownership information of all entities contracting with public authorities on the website of the Public Procurement Agency. We intend to roll out a new e-procurement system to cover all public procurements by January 1, 2023, with a view to support transparent public procurement processes and delivering cost-efficient services. The government also intends to approve a roadmap for the next four years by approving the Public Procurement Development Program, with a view to further harmonize the national regulatory framework with the Acquis Communautaire, finalize the secondary regulatory framework, develop the capacity of public procurement specialists, and promote centralized public procurement.

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

- **Strengthen debt and cash management.** Despite recent progress, especially with respect to data quality and inter-agency coordination, financial instruments are limited and concentrated in short-term maturities, and the government securities market remains shallow. To develop the debt market for government securities and facilitate domestic financing, we will review the legal foundation underlying debt management, strengthen our operational capacity, and take steps to further develop the primary dealer system and develop a new platform for retail investors.

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

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

- **Strengthen our public investment management (PIM) framework to enhance the execution and quality of public investment and close large infrastructure gaps.** Our PIM framework is broadly in line with good international practices, but inconsistent application and narrow coverage significantly limit its effectiveness. Guided by the 2019 PIMA report recommendations, we aim to strengthen the planning, allocation, and implementation stages of our PIM cycle by: (i) publishing a report on the execution of investment projects undertaken by extrabudgetary funds in the previous fiscal year (**end-March 2022 structural benchmark)**, with a requirement to update the report annually; and (ii) amend legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and extra budgetary funds (**end-September 2022 structural benchmark)**.

- **Strengthen the unitary pay system in the budgetary sector.** We plan to undertake an analysis of the unitary pay system in the budgetary sector to improve the wage-compression ratio, strengthen the budgetary process, and address critical staffing needs. We will also launch a fully operational comprehensive IT-based staff registry, as a pilot, covering employees of the Ministry of Finance, the STS, the Customs Service, the Financial Inspectorate, and the Public Procurement Agency by end-2021. We will expand the coverage of a comprehensive IT-based staff registry to all central government employees (**end-June 2022 structural benchmark**). Based on these data analytics, we will develop a time-bound plan to further consolidate wage-related reference values.

- **Ensure the sustainability of the pension system.** Our pension system has significant challenges, including a narrow contribution base, an ageing population and falling replacement ratios, and a deteriorating deficit due to double indexation and policy reversals. To address these challenges, we raised the minimum pension by 68 percent to MDL 2,000 to align with the calculated subsistence level. We corrected the recent policy slippage of reducing the retirement ages for men from 63 to 62 years and for women from 59 to 57 years, which had put our pension system under significant pressure, by repealing in parliament the relevant legislation (**prior action**). In consultation with the World Bank, we intend to modify the indexation formula and broaden the contribution base to address sustainability risks and ensure viable replacement ratios.

- **Enhance social assistance programs.** Despite our efforts to increase allocations to social spending, outlays on social assistance remain low (about 1 percent of GDP), and poverty remains high (around 15 percent). Only 40 percent of payments are means-tested, leaving many poor households without support and creating leakages. In consultation with the World Bank, we will strive to increase the allocations and improve the targeting of social assistance programs, by shifting resources from categorical (including ad-hoc categorical payments) to means-tested payments, and by increasing the coefficients given to the most vulnerable members of recipient families, and by making remote application to means-tested programs operational. We commit to updating our Poverty Reduction and Strategy Paper (PRSP) before the second review under the program.

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

- **Strengthen gender equality efforts.** Gender difference in labor force participation is relatively small, but the share of women who are inactive has been on the rise, the wage gap remains significant, and women are concentrated in poorly remunerated public-sector jobs. We will work with U.N. agencies and other stakeholders to analyze measures to enhance parental leave and childcare policies, and to remove gender-biased distortions.

B. Monetary Policy: Strengthen the Inflation Targeting (IT) Framework

11. The NBM's monetary policy stance will continue to be guided by the inflation outlook. Near-term risks to inflation are tilted to the upside. On the demand side, strong wages, consumer credit, and remittances will continue to contribute to the rising price level. On the supply side, volatile food and energy prices further complicate the NBM's policy response. The NBM stands ready to continue gradually tightening monetary policy stance to address building up demand pressures and second round effects from rising commodity prices on global markets.

12. The NBM is determined to continue strengthening the monetary transmission mechanism. Underdeveloped financial markets, high dollarization of the shadow economy, capital account restrictions, exposure to external shocks, and significant import dependence continue to impair the efficacy of the monetary transmission mechanism. Against this background, the NBM is committed to (i) continue strengthening the coordination of policies in its toolkit that affect monetary conditions with the NBM's base rate; (ii) develop robust frameworks for forecasting and managing liquidity conditions; (iii) continue normalizing reserve requirements to reduce funding costs and encourage de-dollarization; and (iv) strengthen communication of monetary policy actions to help anchor inflation expectations.

13. Moldova's vulnerability to external shocks requires having a flexible exchange rate as an effective shock absorber. The formal adoption of the foreign exchange intervention (FXI) strategy in 2020 has helped the NBM to limit its FXIs to reducing excessive exchange rate volatility on account of disorderly market conditions. In 2022, the NBM plans to review its intervention criteria under the FXI strategy to further foster exchange rate flexibility, thereby incentivizing appropriate risk pricing and facilitating development of hedging instruments.

C. Financial Sector Policy: Enhancing Resilience and Governance

14. We reaffirm our commitment to safeguard the NBM's independence. Amendments to the NBM Law during 2014–16 strengthened key legal safeguards, including its autonomy, governance framework, transparency, and accountably. To safeguard the NBM's financial autonomy, legal changes that would have resulted in cancellation of the law on issuance of state guaranteed bonds in place since 2016have been successfully challenged in the Constitutional Court. We are fully committed to protecting the independence of the NBM to ensure that it effectively executes its functions and delivers on its fundamental objective of ensuring and maintaining price stability, promoting and maintaining a financial system based on market principles, and supporting the economic policy of the country. Towards this objective, the Executive Board of the NBM has been strengthened by filling the vacant deputy governor positions in line with professional, integrity, and procedural requirements of the NBM Law **(prior action).**

15. We have also taken steps to strengthen the integrity and finality of NBM's regulatory and supervisory decisions. Specifically, we have enacted, in consultation with IMF staff, as a ***prior***

action, a legislative package that amended the NBM Law, the Law on Banks' Activity, and procedural codes to make the following urgent enhancements:

- ***Shareholder removal framework.*** To achieve effective enforcement of the supervisory decisions aimed at removing unfit shareholders, we have amended the procedural codes to preclude that interim measures in legal proceedings can impede supervisory measures applied to unfit shareholders, including to those acting in concert (such as, inter alia, suspension or any other encumberment of shareholder rights, share cancellation, and share sale).

- ***Monetary compensation regime***. To ensure fair compensation for proven damages to shareholders, we have amended the Law on Banks' Activity to introduce a framework on the determination of damages for justified claims, which will be determined based on the appraisal of value of shares by an internationally reputable audit company appointed by the appropriate court in cases of bank liquidation, resolution, and shareholder removal decisions.

- ***NBM autonomy and accountability safeguards***. To ensure adequate legal protection for the prudential supervisor commensurate with the NBM's public policy mandate we have amended the NBM Law to (i) to further clarify the standard for the liability of NBM officials and staff to strengthen their legal protection against lawsuits, and (ii) detail the rules applicable to the legal review of prudential supervisory decisions ensuring an appropriate deference to NBM administrative discretion and professional judgement.

16. We remain committed to further strengthening the institutional autonomy and governance of the NBM, in consultation with the IMF. In this regard, we are strongly committed to fully implement safeguards recommendations. In particular, we will strengthen provisions for **(end-June 2022 structural benchmark)**: (i) procedures and criteria for the appointment, resignation, and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) clarifying managerial responsibilities for the governor and the executive board.

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

18. We are resolute in our efforts to ensure transparency of shareholders and beneficial owners and to complete fit and proper ownership and control in one non-systemic bank. However, implementation of steps prescribed by the shareholder removal legal framework were suspended. Based on the strengthened framework for the finality of supervisory decisions, the NBM will take all necessary steps prescribed by the shareholder removal legal framework to complete fit-and-proper ownership and control in this bank while also ensuring proper corporate governance of the bank.

19. We are determined to strengthen our financial supervision, including by bolstering our financial crisis management and macroprudential frameworks in line with the FSSR recommendations. To this end, in 2023, we will prepare a targeted review of the BRRL and the relevant secondary legislation, including to strengthen the MREL requirement, the conditions of access to the resolution fund, and the participation of the DGF in the financing of the resolution measures. We also plan to conduct a comprehensive review of the bank liquidation framework with a view to strengthen liquidation procedures. The NBM plans to allocate more staff in the Financial Stability department to enhance monitoring of systemic risks. We will also close gaps in the macroprudential framework, including by (i) amending the NBM Law to provide an explicit legal mandate for financial stability by end-June 2022, and (ii) strengthening NBM's macroprudential toolkit to introduce caps on loan-to-value (LTV) and debt-service-to-income (DSTI) ratios for financial institutions by end-June 2022. The NBM also intends to update the macro-solvency stress testing framework. Also, by end-June 2022, we will amend the NBM Act, the Law on Bank Activity, and other relevant legislation to ensure that the NBM is able to conduct its supervisory work without being curtailed by inappropriate deadlines or other impediments to proper financial sector supervision which were introduced by the 2019 Administrative Code.

20. We pledge to bolster financial safety nets. We will enhance the DGF's advance preparations for the reimbursement of deposits, including by conducting stress tests for both the DGF and banks. We will strengthen the resolution preparedness of the NBM for the implementation of the Bridge Bank Tool and Bail-in tool, including preparation of operational plans, and bolster inter-agency cooperation. In line with IMF TA recommendations, we will approve secondary ELA regulations to enhance rules for collateral eligibility, risk controls, and internal procedures **(end-June 2022 structural benchmark)**.

21. We are strengthening the regulatory and supervisory frameworks for the non-bank financial sector. We amended relevant legislation (**prior action**) to transfer the regulatory and supervisory responsibilities for the oversight of non-bank credit organizations, savings and lending associations, and insurance companies to the NBM effective July 1, 2023. We have appointed new members of executive board for the NCFM with a view to enhance oversight of the non-bank financial sector, manage the transfer of responsibilities, and facilitate the capital market development. We are enhancing intra-agency coordination to intensify preparations, including via a comprehensive action plan prescribing steps to clarify the legal framework, advance capacity building, foster business continuity, implement necessary regulatory changes, and manage communication. We will strengthen the law on non-bank credit institutions to facilitate responsible lending by including provisions for due diligence on debtors' repayment capacity and collateralization levels.

22. We will prioritize reforms in the insurance sector. Supervisory decisions continue to be challenged in courts including by insolvent companies. Against this background, we remain committed to approve the following Laws that were developed with support from the World Bank by June 2022: (i) Law 186 to safeguard the NCFMs autonomy, ensure market discipline, and prevent fraudulent players from operating in the market; (ii) Law on Insurance and Reinsurance activity establishing new requirements for capital compliance, corporate governance, and risk management; and (iii) Law on Motor Third Party Liability Insurance. Going forward, we will finalize the comprehensive solvency assessment report by a reputable auditing firm for all insurers issuing green cards based on end-December 2020 data (**end-March 2022 structural benchmark**). We will develop and implement resolution strategies for all insolvent insurers to safeguard assets and transfer healthy parts of their operations and customer bases to viable companies.

23. We will develop a comprehensive National Financial Inclusion Strategy (NFIS). We will develop an inter-agency committee with a mandate to develop, implement, and monitor an NFIS. We will target strategies that focus on the development of inclusive financial products and leverage digital services to provide cost-effective financial services for consumers and SMEs. We also intend to augment existing laws to strengthen consumer protection, especially with regards to contract clauses that cover disclosures and define consumer rights. We will bolster the enforcement of consumer protection laws by providing the pertinent agencies with appropriate resources and improving coordination between those agencies.

24. We are committed to protecting our financial sector from illicit financial flows. Towards this end, we will continue to strengthen our Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime, particularly by addressing vulnerabilities identified in the 2019 MONEYVAL assessment. To enhance the ability of financial institutions to play their role of gatekeepers, we have been conducting outreach to the sector on better understanding risks, the implementation of a risk-based approach, and more effective application of preventive measures focusing on suspicious transactions reporting, politically exposed persons, and the identification of beneficial owners. We commit to continuing these efforts, including through targeted supervisory activities. We will also strengthen the capacity of regulatory authorities and improve the coordination among all relevant actors, including regulatory authorities, law enforcement, and private sector. We have adopted a National AML/CFT Strategy for 2020–2025 and will update our National Risk Assessment, develop the accompanying action plan, and publish the results.

D. State Owned Enterprises and Energy Sector Reforms

25. We are determined to launch comprehensive SOE reforms. Our SOE sector undermines competition, productivity, and private investment, while posing significant fiscal risks. The sector suffers from weak performance associated with poor governance and oversight, noncommercial mandates, and weak capacity and independence of supervisory boards. Reforms will focus on enhancing oversight capacity and coverage, strengthen financial reporting and assessment, improve monitoring and managing of fiscal costs and risks, as well as transparency, accountability, disclosure and controls. As a starting point, to enhance oversight capacity and fiscal risk monitoring, the Public Property Agency will require all SOEs at the central government level to submit quarterly financial statements (**end-March 2022 structural benchmark**), which will be regularly shared with the Ministry of Finance. We will undertake a comprehensive assessment of the financial position of all SOEs operating at the central government level, with a view to identify corrupt practices and legacy contracts that contribute to SOEs fiscal costs. The government will develop and adopt a state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization or liquidation, as well as plans to strengthen their governance (**end-September 2022 structural benchmark**). Going forward, we will expand fiscal and financial monitoring of SOEs to the local government level.

26. We will continue to improve transparency and good governance in the energy sector. Moldova has transposed the Third Energy Package in both the electricity and gas sectors. We are fully committed to ensure independence of the energy regulator, in line with relevant EU directives (Directive 2009/72/EC and Directive 2009/73/EC). While the unfolding severe energy crisis in Europe has introduced additional headwinds, we are committed to move ahead with an ambitious reform agenda to open the energy sector to market competition. These reforms are critical to bolster Moldova’s energy security.

- The current price spike requires a rapid and transparent response to address the immediate impacts on consumers and businesses. To this end, we plan to (i) transparently reflect increased costs of gas imports in the tariff; (ii) provide direct budgetary emergency support for energy-poor consumers in the form of partial bill payments, with the subsidized portion of the utility bill progressively reduced for larger gas consumers; and (iii) if needed, ensure energy security by transparently allocating state resources to the energy market operator. We will continue leveraging existing well-targeted social assistance programs to protect the most vulnerable populations.

- In the gas sector, in agreement with the Energy Community Secretariat, ANRE will issue the final certification for the unbundled gas Transmission System Operator (TSO), Moldovatransgaz, in 2022.

- In the electricity sector, in consultation with the Energy Community Secretariat, ANRE will issue the final certification for the unbundled electricity TSO, Moldelectrica, by end-August 2022. Towards this objective, we will also complete legislative and regulatory frameworks towards full unbundling of the electricity sector by end-2021. We will also ensure that the 2020 Wholesale Electricity Market Rules (including a functioning balancing mechanism for electricity exchanges) enter into force no later than January 1, 2022. The competent authorities will adopt the necessary by-laws on energy efficiency obligation schemes, energy audits, and the long-term building renovation strategy to promote energy efficiency.

E. Rule of Law and Anti-Corruption

27. **Strengthening the rule of law and addressing corruption remain critical priorities.** Our predominant aim is to implement reforms to lay the foundation for strong rule of law in Moldova. Towards this end, our immediate goals include cleansing the system and developing a rigorous framework to preserve the independence and accountability of judicial actors, which is critical to addressing corruption, reducing avenues for political influence, instilling more trust in our court system, and improving access to and delivery of justice. We will ensure that due process is in place to hold corrupt actors and government officials accused of using public office for private gain fully accountable. These priorities are contained in our Strategy on Judicial Independence and Integrity to be approved by end-December 2021. We commit to carrying out these reforms in line with constitutional principles and internationally recognized norms and standards. We are also committed to combatting high-level corruption, eliminating bad actors in the public sphere, and to strengthening the integrity, capacity, and independence of key anti-corruption institutions.

28. **We recognize the importance and need to strengthen the independence, integrity, and effectiveness of the judiciary.** We will continue to modernize our judicial system in line with recommendations by international bodies and experts. We endeavor to continue reforms to the current system of recruitment, appointment, evaluation, promotion, and disciplining of judges. Towards this objective, we plan to carry out an extraordinary assessment of the judicial sector based on a transparent process, formulated in consultation with relevant international bodies. We will continue to increase the transparency and accessibility of information available to the public on judicial activities, including by curtailing the use of closed hearings, removing the closed-door policy of the Superior Council of Magistrates (SCM) decision-making, and ensuring SCM decisions to be accompanied by reasoned explanations. Recent constitutional amendments pave the way for important reforms to the SCM in line with recommendations by the Venice Commission, namely on the removal of ex officio members. Transforming the Supreme Court of Justice (SCJ) into a court of cassation with a view to improve the quality of case law remains one of our top priorities. We will continue ongoing reforms to optimize and consolidate our court system by addressing inefficiencies, improving court management and strengthening dispute resolution systems.

29. **We are committed to enhancing the capacity and integrity of our prosecution service.** To improve the effectiveness and accountability of the prosecution service, we recently passed amendments relating to the extraordinary assessment of the Prosecutor General. To ensure that such evaluations are conducted in accordance with principles enshrined in our constitution, we will develop specific criteria and procedures with the necessary safeguards in place and in consultation with international partners. Reforms are needed to improve the current system of evaluating and disciplining prosecutors, including by streamlining disciplinary proceedings and removing the inspectorate of prosecutors from under the office of the Prosecutor General. Our ultimate objective is to strengthen the independence, accountability, and capacity of the Superior Council of Prosecutors (SCP) as the prosecutorial governance body.

30. We are fully committed to tackling entrenched corruption by strengthening the anti-corruption legal framework. In September 2020, we amended the Criminal Code to ensure that the main corruption offences are classified as serious offences (**prior action**). As a result of these amendments, extended statute of limitations and application of protection measures for witnesses and other participants in criminal procedures would be possible in connection with these offences. To ensure that application of sanctions in corruption cases is proportionate, effective, and dissuasive, consistent with international norms and standards, and in consultation with Fund staff, we will amend the Criminal and Criminal Procedure Codes to add clear criteria and procedures for the application of plea bargaining and other sentence reduction or mitigation provisions and to prohibit the reduction of a term of imprisonment in corruption cases below the statutory minimum (***end-December 2022 structural benchmark***).

31. We will promote the integrity, capacity and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption. In consultation with Fund staff, and taking into account opinions of the Venice Commission, we will improve the selection process for the head of the Anti-Corruption Prosecution Office (APO) by amending the relevant legislation **(end-March 2*022 structural benchmark*)** to: (i) allow legal professionals without prosecutorial experience to apply for the position of head of the APO; and (ii) establish a commission comprised of members with impeccable reputation and high professional and moral qualities to vet candidates for the APO head in a balanced, transparent, and fair manner using objective criteria stipulated by law. At least half of the commission's members will be respected experts with recognized ethical standards and experience in anticorruption prosecution, including with relevant experience in other countries. The commission will also include representatives of civil society, with appropriate experience or a record of advocacy in corruption cases. We will also amend relevant legislation to narrow the mandates of the APO and NAC to high-level corruption involving investigation or prosecution of (i) public officials of high office and (ii) corruption "in large proportions" or "resulting in serious consequences", as defined by the Moldova Criminal Code ***(end-December 2022 structural benchmark)***. We will also intensify scrutiny of high-level officials' sources of wealth, including held abroad, leveraging the asset declaration regime and the illicit enrichment offence.

32. We remain resolute in achieving progress on asset recovery from the 2014 banking fraud through criminal justice efforts and channels and cooperation with foreign counterparts, including on the establishment of joint investigative teams. We will bolster coordination among all domestic stakeholders under the leadership of the State Security Council.

F. Economic Statistics

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

G. Program Monitoring

34. The program will be monitored through semi-annual reviews, prior actions, quantitative and performance criteria, indicative targets, structural benchmarks, and an inflation consultation clause. The quantitative performance criteria, inflation consultation clause, and indicative targets are set out in Table 1, as specified in the Technical Memorandum of Understanding (TMU) attached to our Letter of Intent dated November 30, 2021. The prior actions, along with proposed structural benchmarks, are set out in Table 2.

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

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

	2020	2021		2022			
	December Actual	June Actual	December Proj.	March [1/] Prog. Target	June Prog. Target	September [1/] Prog. Target	December Prog. Target
1. Quantitative performance criteria [1/]							
Ceiling on the cash deficit of the general government	10,620	3,447	12,076	1,705	5,876	8,499	15,336
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) [2/]	3,407	3,411	3,640	3,447	3,269	3,417	3,540
2. Continuous performance criteria							
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)			0	0	0	0	0
3. Indicative targets							
Ceiling on the general government wage bill	17,214	9,702	18,720	4,900	10,739	15,356	20,720
Floor on targeted social spending undertaken by the general government [3/]	1,164	641	1,316	835	877	1,146	1,499
o/w on heating allowance	479	439	555	525	652	700	820
o/w on Ajutor Social	628	187	702	268	136	324	511
o/w on support for unemployment	57	14	60	42	89	122	168
Floor on developmental spending undertaken by the general government [4/]	27,904	28,542	34,056	5,976	13,697	20,390	28,958
4. Inflation Consultation Bands (in percent)							
Outer Band (upper limit)				7.0	7.0	7.0	7.0
Inner Band (upper limit)				6.5	6.5	6.5	6.5
Center point	0.9	3.2	4.9	5.0	5.0	5.0	5.0
Inner Band (lower limit)				3.5	3.5	3.5	3.5
Outer Band (lower limit)				3.0	3.0	3.0	3.0

1/ Indicative targets for March and September.
2/ The NIR target is set as specified in the TMU.
3/ Includes heating allowance, payments under Ajutor Social and unemployment insurance programs.
4/ Includes health, educational, and infrastructure spending.

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

	Measure	Rationale	Timeframe	Status
Prior Actions				
1	Parliament to adopt amendments to the 2022 budget in line with the macro-framework agreed with IMF staff, to bring the 2022 general government deficit to 6.0 percent of GDP, update spending priorities, and reflect the agreed financing strategy (MEFP ¶6).	Support macroeconomic recovery and mitigate impact of the pandemic		Met
2	Amend the NBM Law, the Law on Banks' Activity, and procedural codes to strengthen: (i) the bank shareholder removal framework; (ii) monetary compensation regime; and (iii) safeguards to the NBM's autonomy and accountability (MEFP ¶15).	Strengthen the integrity and finality of NBM's regulatory and supervisory decisions		Met
3	The NBM to fill the vacant deputy governor positions in its Executive Board in line with professional, integrity, and procedural requirements of the NBM Law (MEFP ¶14).	Ensure the normal functioning, and decision-making capacity of the NBM Executive Board		Met
4	Amend relevant legislation to transfer regulatory and supervisory responsibilities for oversight of non-bank credit organizations, savings and lending associations, and insurance companies to the NBM effective July 1, 2023 (MEFP ¶21).	Strengthen regulatory and supervisory frameworks		Met
5	Amend the Criminal Code to ensure that the main corruption offences and all instances of money laundering are classified as serious offences (MEFP ¶30).	Strengthen enforcement of the anti-corruption legal framework		Met
6	Repeal the law reducing the retirement age for men and women from 63 to 62 years and from 59 to 57 years, respectively (MEFP ¶10).	To address policy reversal and strengthen sustainability of the pension system		Met
Structural Benchmarks				
Anti-Corruption and Rule of Law				
1	Amend relevant legislation, in consultation with Fund staff, and taking into account opinions of the Venice Commission, to: (i) allow legal professionals without prosecutorial experience to apply for the position of head of the APO; and (ii) establish a commission comprised of members with impeccable reputation and high professional and moral qualities to vet candidates for the APO head in a balanced, transparent, and fair manner using objective criteria stipulated by law (MEFP ¶31).	Strengthen anti-corruption institutions	end-March 2022	
2	Amend relevant legislation to narrow the mandates of the APO and NAC to high-level corruption involving investigation or prosecution of (i) public officials of high office and (ii) corruption "in large proportions" or "resulting in serious consequences", as defined by the Moldova Criminal Code (MEFP ¶31).	Promote the integrity, capacity and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption.	end-December 2022	
3	Amend the Criminal and Criminal Procedure Codes to add clear criteria and procedures for the application of plea bargaining and other sentence reduction or mitigation provisions and to prohibit the reduction of a term of imprisonment in corruption cases below the statutory minimum (MEFP ¶30).	Strengthen enforcement of the anti-corruption legal framework	end-December 2022	
Fiscal Governance				
4	Publish a comprehensive tax expenditure analysis of VAT and income taxes to identify tax relief provisions to be phased out (MEFP ¶8).	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end-June 2022	
5	Publish a report on the execution of investment projects undertaken by extrabudgetary funds in the previous fiscal year (MEFP ¶10).	Strengthen the public investment management framework	end-March 2022	
6	Operationalize the integrated taxpayer register (MEFP ¶8).	Strengthen tax administration	end-June 2022	
7	Expand the coverage of a comprehensive IT-based staff registry to all central government employees (MEFP ¶10).	Strengthen the unitary pay system in the budgetary sector	end-June 2022	
8	Amend legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and extrabudgetary funds (MEFP ¶10).	Strengthen the public investment management framework	end-September 2022	
Financial Sector Oversight				
9	Finalize the comprehensive solvency assessment report by a reputable auditing firm for all insurers issuing green cards based on end-December 2020 data. (MEFP ¶22).	Rehabilitate the insurance sector	end-March 2022	
10	Strengthen provisions for the institutional autonomy of the NBM; (i) the procedures and criteria for the appointment, resignation and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) clarifying managerial responsibilities for the governor and the executive board. (MEFP ¶16).	Strengthen the institutional autonomy and governance of the NBM	end-June 2022	
11	NBM to approve secondary ELA regulations to enhance rules for collateral eligibility, risk controls, and internal procedures (MEFP ¶20).	Strengthen financial safety net	end-June 2022	
SOE and Regulatory Framework Reforms				
12	The Public Property Agency to require all SOEs at the central government level to submit quarterly financial statements (MEFP ¶25).	Enhance oversight capacity over the SOE sector and strengthen fiscal risk monitoring	end-March 2022	
13	The government will develop and adopt a state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization, or liquidation, as well as plans to strengthen their governance (MEFP ¶25).	Improve SOE governance and reduce fiscal risks	end-September 2022	

Attachment II. Technical Memorandum of Understanding

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

A. Quantitative Program Targets

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

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

Indicative targets are set on:

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

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

B. Program Assumptions

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

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

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

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

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

C. Institutional Definitions

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

D. Program Definitions

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

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

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

deposits in counterparts with a minimum rating of A-.[3] Excluded from reserve assets are capital subscriptions to foreign financial institutions, long-term non-financial assets, funds disbursed by international institutions and foreign governments assigned for on-lending and project implementation, assets in non-convertible currencies, NBM's claims on resident banks and nonbanks, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets (futures, forwards, swaps, and options).

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

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

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

8. Monitoring of this definition will be based on NBM's monetary survey and Treasury data. The Ministry of Finance will provide data on foreign-financed projects and balances in all other adjustment accounts. On this basis, and consistent with the definition above, the stock of the net

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

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

domestic credit of the banking system shall be measured from below the line and as of September 30, 2021 amounted to MDL 8479.3 billion.

9. The ceiling on the cash deficit of the general government is defined, as the sum of net credit of the banking system to the general government (as defined in paragraph 7), the general government's net placement of securities outside the banking system, other net credit from the domestic non-banking sector to the general government, the general government's receipt of disbursements from external debt for direct budgetary support and for project financing minus amortization paid, and privatization proceeds stemming from the sale of the general government's assets. The deficit is cumulative from the beginning of a calendar year and will be monitored from the financing side at the current exchange rate established by the NBM at the date of transaction.

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

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

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

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

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

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

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

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

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

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

E. Inflation Consultation Mechanism

[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.

17. The monetary conditionality will include a set of quarterly inflation targets measured as the inflation of the headline consumer price index (CPI) published by the Moldovan National Bureau of Statistics set within tolerance bands. The inner band is specified as +/- 1.5 percentage point around the central point. The outer band 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.

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

Inflation Consultation Bands

	2022			2023	
	Jun	Sep	Dec	Mar	Jun
Outer Band (upper limit)	7.0	7.0	7.0	7.0	7.0
Inner Band (upper limit)	6.5	6.5	6.5	6.5	6.5
Center Point	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Inner Band (lower limit)	3.5	3.5	3.5	3.5	3.5
Outer Band (lower limit)	3.0	3.0	3.0	3.0	3.0

F. Adjusters

19. The adjusters set in this TMU apply for assessing compliance with the program's quantitative targets starting from end-December 2021.

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

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

22. The **floor on NIR** of the NBM will be lowered by any shortfall in the official external grants and loans up to the equivalent of US$66.7 million and US$262.8 million respectively, in 2022, valued at the program exchange rates.

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

	2021	2022			
	December	March 1/	June	September 1/	December
	Proj.	Prog. Target	Prog. Target	Prog. Target	Prog. Target
Programmed external financing flows to adjust the floor on the NIR target (US$ million)	384	43	89	134	329
Programmed external financing flows to adjust the ceiling on the cash deficit (MDL million)	6,865	807	1,663	2,506	6,194

1/ Indicative targets for March and September.

G. Reporting Requirements

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

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND REQUESTS FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—INFORMATIONAL ANNEX

December 2, 2021

Prepared By	European Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of October 31, 2021)

Membership Status: Joined August 12, 1992; Article VIII

General Resources Account:	**SDR million**	**Percent of Quota**
Quota	172.50	100.00
IMF holdings of currency	380.25	220.43
Reserve tranche position	0.01	0.00

SDR Department:	**SDR million**	**Percent of Allocation**
Net cumulative allocation	283.05	100.00
Holdings	166.18	58.71

Outstanding Purchases and Loans:	**SDR million**	**Percent of Quota**
RCF Loans	57.50	33.33
Emergency Assistance 1/	115.00	66.67
ECF Arrangements	47.58	27.58
Extended Arrangements	92.75	53.77

1/ Emergency Assistance may include ENDA, EPCA, and RFI.

Latest Financial Commitments:

Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
ECF	11/07/2016	03/19/2020	43.10	43.10
EFF	11/07/2016	03/13/2020	86.30	86.30
ECF	1/29/2010	4/30/2013	184.80	170.88

Outright Loans:

Type	**Approval Date**	**Date Drawn**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
RCF	4/17/2020	4/21/2020	57.50	57.50
RFI	4/17/2020	4/21/2020	115.00	115.00

1/ Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment (i.e., Board approval date).

Overdue Obligations and Projected Payments to the Fund: 2/
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	**2022**	**2023**	**2024**	**2025**
Principal	1.44	23.22	41.62	76.50	57.02
Charges/Interest	0.57	2.17	1.99	1.38	0.68
Total	2.01	25.39	43.61	77.88	57.70

2/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Safeguards Assessments:

1. **An update assessment in connection with the emergency financing under the RFI and RCF disbursements approved by the IMF Executive Board in April 2020 was completed on September 9, 2020.** The assessment found that the NBM continues to maintain sound operational controls. Transparency and accountability practices adhere to international standards. The governance structure with strong independent oversight of NBM management is broadly appropriate. That said, further strengthening of the legal framework is necessary to safeguard the NBM autonomy and governance arrangements.

Exchange Arrangements:

2. **Moldova has accepted the obligations under Article VIII, Sections 2, 3 and 4, and maintains an exchange system that is free of restrictions on making of payments and transfers for current international transactions and multiple currency practices.**

3. **Moldova's de jure and de facto exchange rate arrangement is floating.** The NBM intervenes in the domestic foreign exchange interbank market in order to smooth out sharp exchange rate fluctuations of the Moldovan leu against the dollar. Interventions are not aimed at changing the trend of the exchange rate determined by the market, despite some evidence of asymmetry favoring FX purchases. NBM's presence in the FX market remains sizable, but its footprint has been reduced. The NBM publishes the information on its interventions.

4. **The official exchange rate of the Moldovan leu to the U.S. dollar announced by the NBM is determined as the weighted average of daily noncash market transactions performed on the interbank market.** The NBM quotes exchange rates of the leu for other currencies on the basis of the leu-U.S. dollar rate and the cross-rate between the U.S. dollar and these currencies.

Article IV Consultations:

5. **The previous Article IV consultation was concluded on March 11, 2020.** The staff report (Country Report No. 20/76) was published.

FSAP Participation:

6. Moldova has undertaken three FSAP assessments:

- 2004 – main mission May 2004; FSSA (Country Report No. 05/64) presented to the Board at the time of the 2004 Article IV discussions and published in February 2005.

- 2007 – main mission October 2007; FSSA (Country Report No. 08/274) presented to the Board with the 2007 Article IV Consultation report and published in August 2008.

- 2014 – main mission March 2014; FSSA (Country Report 16/70) presented to the Board with the 2014 Article IV Consultation report and published in February 2016.

Resident Representative:

7. Mr. Rodgers Chawani assumed his duties as Resident Representative on August 21, 2020.

Technical Assistance, 2016–2021		
Department Counterpart	**Subject**	**Timing**
MCM	Moldova FSSR Main Mission	June 2021
	FSSR Scoping Mission	January/February 2021
	Central Bank Capital Adequacy	April/May 2019
	Monetary Policy Implementation and Operations	March / April 2019
	Strengthening the Forecasting and Policy Analysis System, and Improving Central Bank Communications	June 2017, September 2017, January/February 2019
	Related Party Diagnostics and Reviews	June 2017, September 2017, November 2017
	Emergency Liquidity Assistance	September 2017
	Follow up on Medium-Term Monetary Policy Technical Assistance	September 2017
	Resolution Framework	August 2016
	Deposit Insurance	April 2017, June 2017
	Ultimate Beneficial Owner and Related Party Identification	February 2017
	Bank Resolution	October 2016, November 2016, February 2017
	Review of fit-and-proper rules and bank diagnostics	March 2016, December 2016
	Debt Market Development & Integration of Debt and Cash Management	February, 2016
	Currency Management	April 2016
	Establishing Single Securities Depository	February 2016

Technical Assistance, 2016–2021 (continued)		
Department Counterpart	**Subject**	**Timing**
FAD	Audit 2	October 2021
	VAT Modeling Data Analysis	October 2021
	Compliance Risk Management	September 2021
	RAGAP ASA	January – April 2021
	Governance Assessment	July/August 2020
	Tax Expenditure Assessment	January 2020, December 2020
	Public Investment Management Assessment	October 2019
	Fiscal risks and spending reviews	March 2017, January/February 2018, June/July 2018, December 2018, March 2019, April 2019, August/September 2021
	Tax and revenue administration	September 2016, January 2017, February 2017, March 2017, May 2017, January 2018, March 2018, April/May 2018, June 2018, July/August 2018, August 2018, September 2018, October 2018, July 2021
	Selected Income Tax Policy Issues	September 2018
	Income and Property Tax Reforms	March 2018
	TADAT assessment	October 2017
	Improving the High Wealth Individual Compliance Program	October 2017
	Review of Taxation Policies for Personal Income and Vehicle Ownership	July 2017
	Reforming Customs Challenges in Building Rapprochement with the EU Customs Systems	May 2017
	Challenges in Budgeting - Next Steps to Improve Budget Institutions	May 2017
	Improving Compliance Risk Management of Large Taxpayers	April 2017
	Risk Management	March 2017
	Expenditure Rationalization	June 2016
LEG	Finalizing Diagnostics Report	May/June 2021
	Amendment National Bank Law	September 2020
	Governance: Central Bank and Financial Sector Oversight	August/September 2020

Technical Assistance, 2016–2021 (concluded)		
Department Counterpart	**Subject**	**Timing**
LEG	Governance Assessment	July/August 2020
	Legal Frameworks for CSD/CCP and Cent	February 2016, April 2016, November 2016
STA	FSI - FSSR	June 2021
	Participation in MCM FSSR Scoping Mission	January/February 2021
	Sectoral Accounts	September / October 2019
	Government Finance Statistics: Public Sector Debt Statistics	April 2018, October 2019
	Residential Property Price Indices	April 2019
	Financial Soundness Indicators	March 2019
	National Accounts	June 2017, April/May 2018, November 2018, December 2018, September 2020

RELATIONS WITH THE WORLD BANK GROUP

(As of October 31, 2021)

8. Aligned with the National Development Strategy (Moldova 2020) and with its recent update (Moldova 2030), the World Bank Group (WBG) Country Partnership Framework (CPF) for FY18–21, discussed by the Board on July 27, 2017, and subsequently extended to FY22, supports Moldova's transition towards a new, more sustainable and inclusive development and growth model through a mix of analytics, advice and financing. The CPF incorporates the three top priorities identified in the Systematic Country Diagnostic namely: (a) strengthening the rule of law and accountability in economic institutions; (b) improving inclusive access to and the efficiency and quality of public services; and (c) enhancing the quality and relevance of education and training for job-relevant skills. These three priorities defined and informed the CPF's three original focus areas, validated through a mid-term Performance and Learning Review:

- *Strengthening economic governance:* This pillar focuses on enhancing the quality and implementation of investment climate regulation, strengthening the management of public sector assets, and enhancing financial sector governance and stability in order to de-risk private sector investment for job-creation;

- *Improving service governance:* This pillar focuses on increasing the efficiency and quality of inclusive access to selected public services, including health, energy, and road transport in order to address social exclusion, persistent poverty and vulnerability to shocks, especially in rural areas; and

- *Human capital development:* This pillar focuses on promoting the acquisition of strong generic skills through the education cycle (including enhancing the efficiency of the primary and secondary education) and aligning the education system with labor market demand to enhance its quality and relevance and address persistent skills mismatches in the labor market, mainly through interventions in higher education.

9. The three areas are supplemented by climate change—a WBG corporate priority—as a cross-cutting theme. Greater adaptation, resilience and response to climate change will help address Moldova's substantial vulnerability to climate-related shocks. All CPF focus areas are informed by the 2017 Country Gender Action Plan (further updated and validated in 2019), which identifies key inequalities to be addressed during the CPF period. Finally, the CPF adopts a citizen engagement approach which will be focused on improving the quality of the engagement process and maintaining the current levels of compliance and implementation.

10. Currently, the WB is in the process of finalizing the 2021 SCD update. The assessment builds upon and updates the 2016 SCD highlighting the following priorities: (i) strengthening the rule of law and institutional capacity, including at sectoral and subnational levels; (ii) strengthening resilience particularly to climate change; (iii) improving the business environment to enhance competitiveness; (iv) Reorienting public finance to steer the economy towards a new growth model while ensuring sound macro-management; (v) improving efficiency and equity in service delivery.

11. The World Bank Group is also launching its next five-year CPF. The strategy will build around structural constraints validated by the ongoing SCD exercise and other analytical work and will formulate a forward-looking engagement plan to strengthen institutions, improve service delivery, and build human capital to support the Government's priorities, including in response to COVID-19.

12. As part of the 2018 concluded budget support operation, the World Bank Group supported a number of reforms to reduce fiscal risks and level the playing field for private sector development in Moldova. It worked in close cooperation with the IMF in the area of financial sector reforms, particularly on strengthening the banking sector governance and on the macro-fiscal framework. This cooperation continues also in the context of renewed policy dialogue with the authorities which focuses on efficiency of public finances, inclusion, and competitiveness and complements the ongoing IMF program under the EFF and the ECF. The most recent areas of cooperation include social sector reforms, particularly pension schemes and energy sector reforms.

13. The WB's active portfolio includes twelve operations. Total current portfolio amounts to US$4633 million, (11 Investment project financings and one Program for Results). After receiving a request from the authorities in October 2021, the future budget support is contingent on the evolution of discussions with the authorities on a meaningful reform agenda that would support a resilient economic recovery. The size of the active trust fund portfolio, which finances analytical and advisory work and provides co-financing to IDA operations, is approximately US$7 million.

14. IFC's committed portfolio in Moldova is US$1.6 million, as its larger loans were recently prepaid. IFC's investments span across an array of sectors: agribusiness, manufacturing and infrastructure (municipal and telecoms). During the existing CPF cycle, IFC has been actively assessing opportunities in key sectors of the economy, including in manufacturing, retail, infrastructure, agribusiness, tourism. Due to the small size of the economy and private sector base, unresolved banking sector issues, persistent governance gaps and political turmoil, IFC has focused on the implementation of its Investment Climate Reform Project conducted jointly with the Bank, which has been instrumental in improving the business enabling environment and deepening the country's financial infrastructure.

15. MIGA currently has one operation in the portfolio with an outstanding exposure of US$22.6 million in support of Moldova's fragile financial system. MIGA's guarantee was instrumental to navigate through the COVID-19 crisis and helped building resilience in the banking sector. In longer perspective, in close collaboration with the IFC and the Bank, MIGA will seek to mobilize cross-border investment for a sustainable, private sector-led post-COVID recovery in Moldova.

RELATIONS WITH THE EBRD

(As of October 25, 2021)

EBRD has been supporting Moldova's transition to sustainable market economy since 1992.

16. **As of October 2021, the Bank has invested a total of EUR 1.5 billion through 146 projects in various sectors of Moldova's economy, and EBRD's portfolio in Moldova stood at EUR 580 million with 51 active portfolio projects.** Approximately 73 percent of the Bank's portfolio is in the Sustainable Infrastructure sector followed by 14 percent in Financial Institutions and13 percent in Industry, Commerce & Agribusiness. Annual business investment in the recent years has been in the range of EUR 100 million for approximately 10 operations. The Bank continues to maintain extensive policy dialogue across sectors in concert with development partners, including extending support in non-transactional areas such as business climate improvements through its ongoing support to the Economic Council and public procurement providing support to the Government in implementation of electronic procurement system under the WTO GPA trade commitments. The Bank is also actively engaged in energy sector policy dialogue alongside EIB and WB focusing on liberalization of gas and electricity markets and implementation of EU 3rd Energy Package.

17. **The Bank's operations in the country are guided by Moldova Country Strategy 2017–2022.** The strategy defines the following priority areas:

- *improving governance and strengthening resilience* by leading in the restructuring of the banking sector; and enhancing energy security,
- *enhancing competitiveness* by supporting private firms in building capacity and promoting commercialization of public utilities and infrastructure.

18. **The EBRD has been at the forefront of efforts to help the country clean up and modernize its banking sector.** Major achievements under the current strategy include supporting the entry of a strategic foreign investor to Victoriabank, third-largest bank, and co-investing in Moldova Agorindbank, the largest commercial bank in the country. Following shareholder transparency and corporate governance restoration, EBRD relaunched lending operations and Trade Facilitation Programme (TFP) with both banks.

19. **The Bank continues to engage actively in the energy and infrastructure sectors.** In 2019, EBRD provided emergency support to Moldova's energy sector to mitigate the risk of supply disruption in the gas sector and support supply route diversification. The project also entails policy engagement to support the institutional reform of the Moldovan gas sector. In 2020, EBRD co-financed the Moldova-Romania gas interconnection project. Implementation of the project to build permanent interconnection between the electrical networks of Moldova and Romania continues jointly with development partners. In transport infrastructure EBRD is one of the main financiers of the roads and railway rehabilitation and supported Moldova Railway in the acquisition of 12 new locomotives in 2020. In the area of public utilities, the Bank is supporting the city of Balti in

purchasing energy efficient, low-floor trolleybuses for the residents of the underserved areas of the city. It also supports the improvement of the solid waste management system in Chisinau, thus contributing to enhanced solid waste services and environmental improvements in the city. Efforts to improve implementation capacity of existing public infrastructure clients are ongoing.

20. Banking sector transformation enabled the Bank to strengthen its support to Moldovan micro, small and medium-sized enterprises (MSMEs). Supported by the EU under the EU4Business Initiative, EBRD recently extended credit lines to a number of banks to support SME competitiveness and approximation with EU standards in order to make full use of the opportunities under the Deep and Comprehensive Free Trade Agreement (DCFTA), including with a focus on energy efficiency. In 2019, The Bank provided first Women in Business loan in Moldova. The financing will promote women's entrepreneurship and participation in business by assisting with access to finance, know-how and technical advice. In 2020, the Bank launched its first green financing credit line in Moldova with MAIB. In order to secure a sustainable source of local currency for the Bank LCY lending operations, in 2020, EBRD signed the US$30 million LCY swap framework agreement with the NBM. EBRD continues to provide advisory support to local businesses under the Small Business Initiative.

STATISTICAL ISSUES

(As of October 31, 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. Over the last several years, with technical assistance (TA) from the Fund the authorities have improved statistics in several areas, including national accounts, fiscal and monetary data, consumer prices, and external trade. TA is ongoing in the area of price and national accounts statistics.
National Accounts: With the support of the IMF's Statistics Department (STA), the NBS has made good progress in recent years in improving quarterly and annual national accounts which are compiled according to the 2008 SNA. GDP is estimated from the production and the expenditure sides, annually and quarterly. Estimates do not include the Transnistria region for which data have not been collected since 1991.
Price statistics: The NBS publishes monthly CPI and PPI data and began publications of the core CPI from 2010. The weights of the CPI basket are updated on an annual basis to reflect adjustment in consumer expenditures. At the beginning of 2021, NBS revised CPI production in line with the COICOP. The PPI could benefit from an extension of coverage to include more services activities. STA successfully finished TA to the NBM with the publication of a residential property
Government finance statistics: Moldova reports annual government finance statistics (GFS) based on *Government Finance Statistics Manual 2001 (GFSM 2001)* methodology for publication in the *Government Finance Statistics Yearbook (GFSY).* The data are on a cash basis and cover transactions and stock positions of the general government sector. With the support of Fund TA, the authorities introduced regular dissemination of monthly and semi-annual *GFSM 2001* based data for the central government units. No monthly GFS are currently reported to STA.
Monetary statistics: Monetary and financial statistics are compiled broadly in line with the Monetary and Financial Statistics Manual. The NBM reports monetary and financial statistics monthly, using Standardized Report Forms (SRFs) for the central bank, other depository corporations, and other financial corporations (OFCs); and monetary data based on these SRFs are published in the International Financial Statistics. The coverage of OFCs can be expanded to include leasing companies once source data become available. The NBM reports data on several series and indicators to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial sector surveillance: The NBM also reports Financial Soundness Indicators (FSIs) on a quarterly basis which include 11 core and 7 encouraged indicators for deposit takers. FSIs are posted on the FSI webpage.

I. Assessment of Data Adequacy for Surveillance (concluded)	
External sector statistics: The balance of payments and international investment position (IIP) statistics have been compiled fully in line with the sixth edition of Balance of Payments and International Investment Position Manual (BPM6): balance of payments starting with data for 2009, and IIP starting with data for 2001. The time series prior to the years indicated above are on BPM5 basis. Besides the balance of payments and IIP statistics, Moldova disseminates other external sector statistics (EES) datasets such as external debt statistics, international reserves statistics, and coordinated direct investment survey. All ESS datasets are compiled and disseminated with prescribed SDDS periodicity and timeliness.	
II. Data Standards and Quality	
Moldova subscribed to the SDDS in May 2006.	A data ROSC report was published in March 2006.

Moldova: Table of Common Indicators Required for Surveillance

(As of October 31, 2021)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]
Exchange Rates	October 2021	10/28/2021	D/M	D	D/M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	September 2021	10/20/2021	W/M	W	M
Reserve/Base Money	10/22/2021	10/26/2021	W	W	M
Broad Money	10/22/2021	10/26/2021	W	W	M
Central Bank Balance Sheet	September 2021	10/14/2021	M	M	M
Consolidated Balance Sheet of the Banking System	September 2021	10/25/2021	M	M	M
Interest Rates[2]	September 2021	10/20/2021	M	M	M
Consumer Price Index	September 2021	10/11/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]-General Government[4]	September 2021	end October 2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	September 2021	end October 2021	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	September 2018	end October 2021	A	A	A
External Current Account Balance	Q2/2021	09/30/2021	Q	Q	Q
Exports and Imports of Goods and Services	Q2/2021	09/30/2021	Q	Q	Q
GDP/GNP	Q2/2021	09/15/2021	Q	Q	Q
Gross External Debt	Q2/2021	09/30/2021	Q	Q	Q
International Investment Position	Q2/2021	09/30/2021	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, state social security funds, and health insurance funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

December 7, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND REQUESTS FOR AN ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Low
Overall risk of debt distress	Low
Granularity in the risk rating	Not applicable
Application of judgment	Yes. Application of customized stress scenario to account for exceptional and transitory factors in 2020 related to COVID-19 pandemic.

Approved By
Philip Gerson (EUR), Maria Gonzales (SPR), and Marcello Estevão and Lalita M. Moorty (IDA)

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

Moldova's risk of debt distress remains low—unchanged from the Debt Sustainability Analysis (DSA) update published in April 2020.[1] *Overall, public debt is considered sustainable with current debt carrying capacity assessed as strong*[2]*, despite the COVID pandemic-induced increase in public debt to 35 percent of GDP in 2020 and the projected medium-term developmental spending needs. This assessment reflects a baseline which assumes that the authorities remain committed to prudent fiscal policy under the new ECF/EFF program. Stress tests have been adjusted given the exceptional nature from the largely temporary impact of the pandemic, where*

[1] This DSA was jointly prepared by IMF and World Bank staff.

[2] Moldova's Composite Indicator (CI) index, based on October 2021 WEO update and the World Bank's 2020 CPIA, indicates that the country's debt carrying capacity is strong (3.14).

2020 was dropped from the calculations of historical average and variances (to reduce the calculated standard deviation by a factor to align it with the pre-pandemic stress test parameters through a customized stress test). Thus, final risk ratings have been adjusted through the application of staff judgment. On this basis, the sustainability threshold is not breached in the customized stress scenario. The analysis shows that the overall risk of debt distress is low, but debt sustainability is vulnerable to shocks to GDP growth. In the long term, the financing mix is expected to shift from concessional to commercial borrowing by 2030. Private sector external debt remains relatively high, compared to other low-income countries, which could pose significant risks to external debt sustainability. The public debt trajectory remains vulnerable to risks, particularly from shocks to GDP growth. Improving governance, enhancing the effectiveness of public spending, and strengthening the management of fiscal risks, including those stemming from state-owned enterprises (SOEs), are priorities to contain public debt vulnerabilities.

PUBLIC DEBT COVERAGE

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

Text Table 1. Moldova: Public Debt Coverage

Public debt coverage

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

[3] PPG debt covers gross debt of the general government. SOE debt in Moldova is primarily driven by externally financed project loans that are on-lent by the central government to SOEs. Both on-lending to the private sector (operationalized through commercial banks) and to SOEs are part of public guarantees and are included in the central government debt. Non-guaranteed SOEs debt is also included in the public debt. Debt of SOEs with maturity longer than a year accounts for 1.8 percent of GDP as of 2020. Staff and the authorities will define an agenda with concrete steps towards expanding debt coverage for local governments' debt, SOEs and PPPs to include all existing debt obligations. Due to the lack of data, information on PPPs is currently limited. The change in coverage complicates intertemporal analysis of PPG debt. The contingent liabilities shock from SOE debt is set at the default value of 2 percent of GDP to reflect risks associated with borrowing of SOEs majority owned by the state, while a contingent liability shock of 12 percent of GDP is meant to also capture risks from PPPs and SOEs that are partially owned by the state.

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

Text Table 1. Moldova: Public Debt Coverage (concluded)

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

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

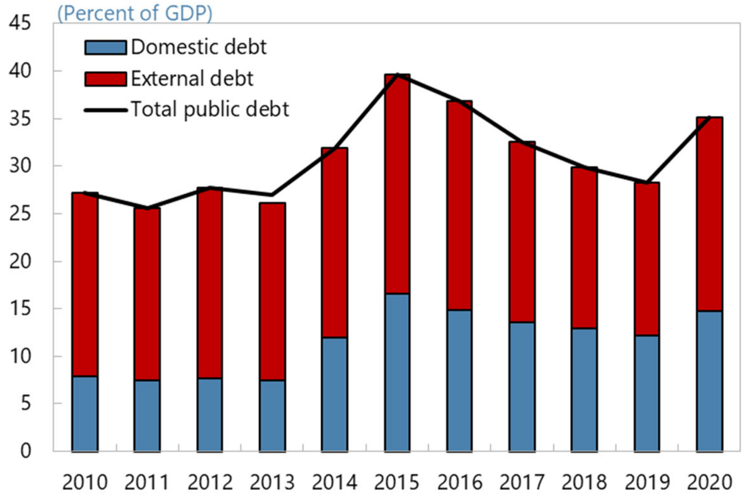
1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed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

BACKGROUND ON DEBT

2. **Public debt increased in 2020 to 35 percent of GDP, from about 28 percent of GDP in 2019, reflecting an uptick in COVID pandemic-induced borrowing as well as the denominator effect from the contraction in GDP.** Public and publicly guaranteed (PPG) debt reached about 39 percent of GDP in 2015 up from about 27 percent of GDP in 2010 (Text Figure 1). A key driver of the spike in the public debt was the issuance of a state guarantee to the National Bank of Moldova (NBM) to provide emergency liquidity to the banking sector. During 2016–19, public debt was on a downward trend, returning towards the level seen in 2010. In 2019, after almost a year of a deadlock over concerns about governance and deteriorating democratic standards during the pre-election campaign, the EU and other donors resumed their financial assistance to Moldova. However, in 2020, COVID pandemic-induced borrowing pushed up public debt, driven by increases in both domestic and external debt (Text Table 2).[5] Currently, 30 percent of PPG domestic marketable debt are long-term debt securities (government securities with maturity longer than one year). Other domestic marketable debt is mainly short-term and held by the banking system. In addition, the stock of domestic arrears to suppliers amounting to MDL 41 million (0.02 percent of GDP) by end-2020 is included in domestic debt.

Text Figure 1. Moldova: Evolution of Public Debt, 2010-2020

(Percent of GDP)



Sources: IMF WEO and IMF staff calculations.

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

Text Table 2. Moldova: Decomposition of Public Debt and Debt Service by Creditor, 2020–22 1/

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

	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
		(Percent total debt)	*(Percent GDP)*				*(Percent GDP)*		
Total	4220.1	100.0	35.4	1112.6	1799.3	1881.9	9.3	13.8	13.8
External	2430.2	57.6	20.4	226.0	222.9	215.7	1.9	1.7	1.6
Multilateral creditors 2/	2242.7	53.1	18.8	161.4	162.2	180.8	1.4	1.2	1.3
IMF	668.8	15.8	5.6						
World Bank	791.6	18.8	6.6						
ADB/AfDB/IADB	0.0	0.0	0.0						
Other Multilaterals	782.2	18.5	6.6						
o/w: list largest two creditors	549.8	13.0	4.6						
EIB	411.9	9.8	3.5						
EBRD	137.9	3.3	1.2						
list of additional large creditors	0.0	0.0	0.0						
Bilateral Creditors	187.5	4.4	1.6	64.7	60.7	34.9	0.5	0.5	0.3
Paris Club	142.6	3.4	1.2	21.2	23.8	28.3	0.2	0.2	0.2
o/w: list largest two creditors	80.7	1.9	0.7						
JICA	55.3	1.3	0.5						
Government of Russia	25.4	0.6	0.2						
list of additional large creditors	0.0	0.0	0.0						
Non-Paris Club	44.8	1.1	0.4	43.5	36.9	6.7	0.4	0.3	0.0
o/w: list largest two creditors	44.3	1.0	0.4						
Government of Romania	43.0	1.0	0.4						
Novo Gaming M Technologies GMBH	1.4	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Domestic	**1789.9**	**42.4**	**15.0**	886.6	1576.4	1666.2	7.4	12.1	12.2
Held by residents, total	1789.6	42.4	15.0	886.6	1576.4	1666.2	7.4	12.1	12.2
Held by non-residents, total	0.3	0.0	0.0						
T-Bills	703.6	16.7	5.9	634.2	1459.9	1576.1	5.3	11.2	11.6
Bonds	995.2	23.6	8.4	143.1	46.9	46.6	1.2	0.4	0.3
Loans*	91.1	2.2	0.8	109.3	69.5	43.5	0.9	0.5	0.3
Memo items:									
Collateralized debt 3/	n/a	n/a	n/a						
o/w: Related	n/a	n/a	n/a						
o/w: Unrelated	n/a	n/a	n/a						
Contingent liabilities	71.7		0.6	0.0	0.3	0.5	0.0	0.0	0.0
o/w: Public guarantees	71.7		0.6	0.0	0.3	0.5	0.0	0.0	0.0
o/w: Other explicit contingent liabilities 4/	n/a	n/a	n/a						
Nominal GDP	11914.1			11914.1	13010.6	13622.8			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

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

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt.

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

3. **Moldova's gross total external debt increased in 2020 to about 65 percent of GDP, from about 58 percent of GDP in 2019, mainly driven by higher public external borrowing.** In 2020, PPG external debt increased to about 20 percent of GDP from about 16 percent of GDP in 2019, reflecting higher external borrowing to mitigate the effects of COVID pandemic. The observed reduction of gross total external debt during 2016–19 largely reflects the decline in private external debt, which at above 40 percent of GDP since 2010, remains relatively elevated for a low-income country. The strong appreciation of the nominal exchange rate by about 14 percent during this period amid renewed capital inflows also contributed to the reduction in gross external debt. The recent decline in private sector debt was due to a decrease in overseas borrowing by the banking sector, reflecting the tailwinds impact of the banking crisis in 2014.[6] Similar to other Central and Eastern European countries, while gross total external

[6] NBM is working continuously on improving the coverage of private sector debt. This explains the changes in historical debt numbers from period to period.

debt in Moldova is sizable at almost 65 percent of GDP in 2020, about 36 percent of the private debt are liabilities to direct investors (Moldovan foreign-owned companies borrowing from their parent companies abroad). Short-term debt of the non-bank sector is high as well, about one-third of non-bank debt, and consists of trade credits, arrears, and other debt liabilities, mostly for the import of natural resources. Foreign assets of the non-bank sector have shrunk in recent years but remain sizable (about 35 percent of gross nonbank external liabilities) and mainly held in the form of currency, deposits, and short-term loans (trade credits). Thus, while high private external debt in Moldova continues to pose risks to external debt sustainability, overall risk of total external debt distress is assessed as low because PPG external debt is held mainly by multilateral and bilateral donors and is mostly medium and long term and on concessional terms.

MACROECONOMIC OUTLOOK, 2021–26

4. This DSA is consistent with the macroeconomic framework underlying the staff report prepared for the 2021 Article IV and the ECF/EFF-supported program request. The baseline scenario relies on full implementation of fiscal policy measures intended to support the post-pandemic recovery and addressing urgent developmental spending needs, as well as financial and structural reforms envisaged under the ECF/EFF program. Economic performance is expected to remain solid over the medium term, with steady growth, moderate inflation, and a gradual narrowing of the current account deficit:

- **Real GDP.** Real growth contracted by 7 percent in 2020 owing to the double impact of the pandemic and the drought on exports, consumption, and investment. Recovery in activity is underway in 2021, with real growth expected to rebound by 7.5 percent, buoyed by stronger private domestic demand, continued fiscal and financial support measures, and political stability.[7] High energy costs, in particular the hike in gas tariffs, and implied uncertainty might negatively affect aggregate demand in 2022 H1, with an expected annual growth rate of 4.5 percent for 2022. Over the medium-term, growth is expected to strengthen to an average of about 5.4 percent, driven by broad-based program-induced reforms including additional fiscal support envisioned to close Moldova's developmental needs.[8] This improved growth outlook is supported by the fact that the newly elected pro-reform government enjoys a large parliamentary majority without the need to form a coalition for the first time since independence to pursue ambitious structural reforms that have constrained potential output in the past. Moreover, such political stability is expected to reduce policy uncertainty, which is considered by the private sector as one of the main obstacles to expand business and private investment. The additional fiscal support envisioned under the program is expected to be directed to address critical

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

[8] Nevertheless, the output gap remains negative in the medium-term following the sharp decline in GDP in 2020.

human and infrastructure bottlenecks (which have been ringfenced by a "floor" in the development spending as part of the IMF-supported program).

- **Inflation.** A stronger-than-expected recovery as well as high fuel and gas prices contributed to accelerating inflation dynamics over the summer, with headline inflation breaching the upper bound of the inflation band in September 2021. Recent developments in the gas market have further complicated the picture as a result of high tariff adjustments feeding into regulated prices, while the implied decrease in purchasing power and arising uncertainty might curtail aggregate demand and core inflation. For 2021, inflation is projected to rise to almost 8 percent, y-o-y, before receding towards the inflation target in 2022 and over the medium-term, where inflation is expected to remain broadly anchored around the National Bank's inflation target.

- **Fiscal.** The fiscal position deteriorated in 2020 to a deficit of 5.1 percent of GDP, from a deficit of 1.4 percent of GDP in 2019, reflecting the economic disruption caused by the COVID-19 pandemic. While revenue collections declined as the economy contracted, expenditures increased by about 11 percent as the authorities attempted to mitigate the effects of the pandemic by providing support to the health sector, business activity, and expanded social protection. The deficit is expected to remain around 5.2 percent in 2021 as the strong cyclical improvement in revenues is offset by increased spending on health and social protection as well as the response to rising energy prices. The deficit is expected to further widen to 6 percent of GDP in 2022, reflecting planned fiscal stimulus to shore up economic recovery and mitigate the impact of rising energy costs, and address urgently needed developmental spending needs. Over the medium-term, improvements in revenue and spending efficiency and supporting governance reforms under the ECF/EFF program are expected to ensure debt sustainability. Measures to be taken to that effect include strengthening tax administration and improving tax compliance; streamlining of tax exemptions; improvements to the efficiency of capital spending by strengthening public investment management; strengthening the unified public wage system and improving control over the wage bill; and current expenditure rationalization. While the fiscal envelope is projected to expand over the medium-term to achieve these objectives, the overall deficit-to-GDP is projected to decline gradually. As such, total public debt is envisaged to remain below the threshold for debt distress—peaking at about 43 percent of GDP in 2024 before receding to almost 42 percent of GDP in 2026.

- **Development-debt-fiscal nexus.** Achieving development objectives in a sustainable way is the key. Closing the full development gap with regional peers is not feasible as it would set Moldova's public debt on an unsustainable trajectory and increase vulnerability to a wide range of shocks. Moreover, external concessional financing is unlikely to be sufficient for such a spending surge, while domestic banks' ability to absorb government debt is limited. Significant constraints on execution of capital projects are likely to pose additional headwinds. A more modest, but yet ambitious, fiscal envelope of additional development spending assumed under the program—combined with reforms to strengthen domestic revenue mobilization, spending efficiency, and governance—is likely to be financeable and would yield tangible income convergence benefits without exacerbating domestic and external imbalances or crowding out private investment. Revenue mobilization and spending efficiency gains are expected to support spending sustainability.

- **External sector.** The current account deficit narrowed to 7.5 percent of GDP in 2020, from over 9 percent of GDP in 2019, as the trade balance improved due to import compression coupled with strong remittance inflows during the pandemic. However, the deficit is expected to worsen to about 11.3 percent of GDP in 2021 reflecting the strong rebound in economic activity, before narrowing to 8 percent of GDP by 2026; financed by strong capital and investment flows catalyzed by the ECF/EFF program. Despite heightened political uncertainty and the pandemic, the Lei strengthened in 2019-2020. Both the real and nominal effective exchange rate depreciated by about 6 percent y-o-y in September 2021, reflecting a pick-up in economic recovery as imports rebounded strongly. At end-December 2020, gross international reserves stood at US$3.78 billion, up from US$3.1 billion recorded in 2019, to comprise 190 percent of the Fund's composite reserve adequacy metric. Gross international reserves are expected to remain strong in 2021 and beyond, ensuring reserves adequacy.

- **External borrowing.** The DSA assumes that all contracted but undisbursed concessional loans will be fully disbursed over the medium-term as planned by the authorities. New borrowings (including commercial) are projected to rise over the longer term to finance the country's high development needs. This plays a key role in the DSA and explains to some extent the upward shift in debt burden indicators after 2030, including for total external debt level indicators.[9] Moldova will continue to benefit from significant grant financing in the medium-term, driven in large part by the profile of the new concessional borrowing, leaving the grant element of new borrowing at about 38.3 percent. In the short-term, the external financing need—estimated at US$259 million in 2021[10]—will be fully covered by the EU and other development partners' disbursements (US$171 million and US$10 million, respectively), and the first ECF/EFF disbursement of about US$78 million (SDR 57.15 million, of which SDR 19.05 million under the ECF and SDR 38.1 million under the EFF), all of which are to be disbursed for budget support.[11] In 2022-2025, the remaining external financing gap of US$911 million will be financed mainly by the IMF disbursements (around US$472 million) under the new ECF/EFF program, EU funds via macro-financial assistance to Moldova under a new financing package (about US$293 million), the World Bank's Development Policy Operation (DPO) (US$140 million), and support from other development partners (US$7 million).

- **Domestic borrowing.** Domestic borrowing is assumed to gradually increase through 2030. Thereafter, it is expected to gradually decline to almost 9 percent of GDP by 2041 due to sustained GDP growth.

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

[10] Exceptional financing.

[11] The authorities also received new SDR allocation of about US$236 million (SDR 165.3 million) which is also being used for budget support.

Text Table 3. Moldova: Key Macroeconomic Assumptions
(DSA December 2021 vs DSA April 2020)

	2018-2020	2021-2026	2027-2031	2021-31
Real GDP growth (percent)				
DSA December 2021	0.3	5.6	5.0	5.3
DSA April 2020	1.5	3.9	3.8	3.8
Inflation (GDP deflator, in US dollar terms)				
DSA December 2021	7.1	0.8	1.9	1.3
DSA April 2020	3.8	3.6	1.9	2.9
Total Revenue (percent of GDP)[1]				
DSA December 2021	29.7	31.6	32.3	31.9
DSA April 2020	29.3	29.8	29.7	29.7
Current Account Deficit (non-interest, in percent of GDP)				
DSA December 2021	8.4	8.4	5.6	7.1
DSA April 2020	9.7	8.8	6.2	7.7

Source: Moldova authorities and Staff calculations.

[1] Total revenue, excluding grants.

5. **The debt sustainability framework's realism tools suggest that the baseline projections are reasonable (Figures 3 and 4).** The evolution of the projection of both external and PPG debt to GDP ratios is broadly consistent for the current and previous DSA vintages, while they reflect major deviations from the DSA from the 5 years past. This is because the public debt ratio increased significantly after 2013 and reached its highest level in 2015 owing to the government rescue package to the banking sector. In terms of projections, the current DSA deviates from the previous DSA mainly due to the incorporation of: (i) revised macroeconomic assumptions reflecting the COVID pandemic and agricultural drought on actual and projected GDP in 2020, and a stronger recovery in 2021 (as a denominator), and (ii) the looser fiscal policy going forward to support developmental needs and growth. For the **external public debt**, projected debt ratios over the medium term are broadly stable and in line with 5-year ahead projected changes (balancing between positive contributions to debt from stronger current account and FDI estimates and negative contributions to debt from real GDP growth and other factors). The slight decline in the external debt ratio relative to the five-year historical change is due mostly to exchange rate movements, other residuals, and developments in the current account and FDI. For the **total public debt**, the increase in the projected debt ratios to GDP in the medium term is driven mainly by the widening primary balance which more than offsets the negative contribution to debt from strong real GDP growth, whereas the decline compared to the five-year historical debt ratios was due to real exchange rate factors and resilient real GDP growth. The difference over 2020–21 between the baseline growth projections and growth projections implied by the standard fiscal multipliers in Figure 4, reflects the impact of the COVID pandemic and political uncertainty in 2020. Growth is expected to rebound in 2021 to 7.5 percent and to hover above an average of 5 percent in the medium-term. The 3-year adjustment in the fiscal primary balance based on the realism tool is credible, as it does not fall in the upper quartile of the distribution of past adjustments relative to peers.

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

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

7. **Moldova's debt carrying capacity is assessed to be strong, unchanged from the previous DSA.** The composite indicator (CI), which captures the impact of several factors through a weighted average of an institutional indicator[12], real GDP growth, remittances[13], international reserves, and world growth, confirms that Moldova's debt carrying capacity is classified to be strong, which is unchanged from the previous two DSA rounds (Text Table 4).[14] The debt carrying capacity, in turn, determines the PPG external debt thresholds and total public debt benchmarks.

8. **The DSA includes a stress test that follows standardized settings and a customized stress scenario on GDP growth which excludes the impact of the pandemic—related exceptional and transitory factors in 2020.** The ***standardized*** stress test indicates a breach of public debt thresholds beyond 2026, whereas the customized stress test does not (¶12). Under the ***customized*** stress tests, all PPG external debt indicators remain below the policy relevant thresholds (Table 3 and Figure 1). Moldova does not have prominent economic features such as significant reliance on commodity exports, market financing that would require additional tailored stress tests or other modules, nor severely affected by natural disasters. Regarding the contingent liability stress test, a shock of 12 percent of GDP is used. The severity of the shock was calibrated to the most recent domestic banking crisis event in 2016 that resulted in recapitalization of about 8.3 percent of GDP.

[12] The World Bank's Country Policy and Institutional Assessment (CPIA).

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

[14] Moldova's Composite Indicator (CI) is 3.14, which corresponds to a strong debt-carrying capacity based on the IMF's October 2021 World Economic Outlook and World Bank's 2020 CPIA.

Text Table 4. Moldova: Debt Carrying Capacity and Applicable Thresholds

Debt Carrying Capacity and Thresholds

Country	Moldova
Country Code	**921**

Debt Carrying Capacity	**Strong**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Strong	Strong 3.14	Strong 3.11	Strong 3.23

Applicable thresholds

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

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

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

9. Under the baseline scenario and alternative scenarios, all external debt indicators continue to remain below their policy-relevant thresholds (Table 1, Figure 1). During 2021–26, new external financing will consist primarily of borrowing from multilateral and bilateral lenders, while commercial borrowing is expected to start playing a larger role in the long-term from 2030, reaching about 65 percent of total public sector borrowing by 2041. The present value of PPG external debt is projected at 16.8 percent of GDP in 2021, decreasing to about 10 percent by 2031. The ratio will remain below the 55 percent threshold under the baseline scenario throughout the projection period. Similarly, debt service indicators remain well below their respective thresholds. Improvements in debt-management practices envisaged under the authorities' reforms supported by the ECF/EFF program will give further resilience to shocks affecting debt service needs. A tailored stress test for the contingent liability shock also does not cause any breach of relevant thresholds. Under the most extreme scenario, most PPG debt indicators show increase in their values but remain well below their indicative thresholds. These outcomes hinge on continued prudent fiscal policy and sound macroeconomic and debt management policies envisaged under the ECF/EFF program.

10. **While the external risk rating is determined by the PPG external debt, large private external debt poses some potential rollover risks.** In the baseline scenario, private external debt to GDP ratio is expected to decline further from about 45 percent of GDP in 2020 to about 36 percent of GDP by 2026, supported by the strong real growth and by a larger contribution of FDIs and other non-debt creating flows to the current account financing. Potential rollover risks from a significant stock of private sector debt are partly mitigated by private sector savings abroad.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

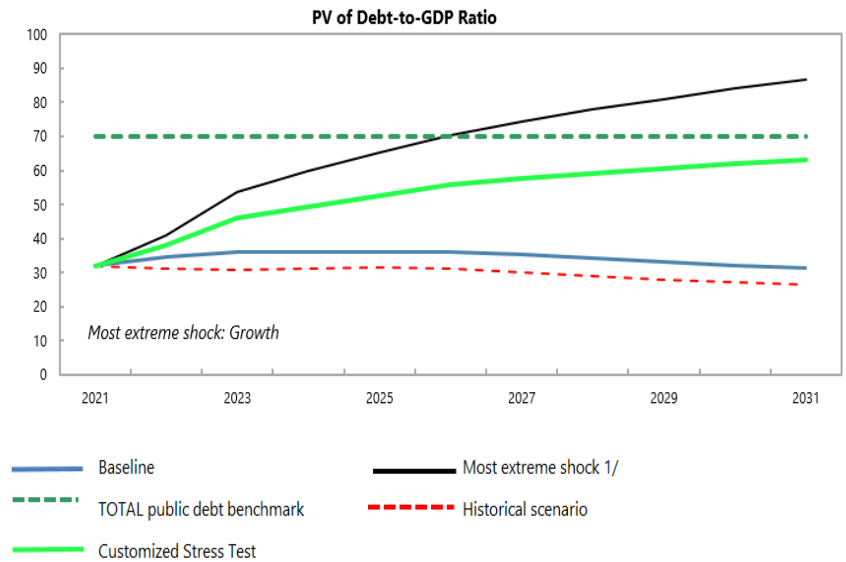
11. **Under the baseline, the indicators of the overall public debt burden are below the benchmark threshold, but risks remain.** Under the baseline, the PV of total PPG debt to GDP is projected to increase initially to about 38 percent of GDP by 2023, but will stabilize at that ratio in the medium-term, remaining below the 70 percent benchmark in the medium-to-long term (Figure 2). Over the long-term, the PV of public debt-to-GDP under the shock scenario remains elevated, as the country accumulates higher debt to finance larger fiscal and current account deficits. Such a scenario highlights the risks to debt sustainability faced by the authorities in the absence of needed reforms. A significant contingent liabilities shock (to SOEs and PPPs and/or financial market distress) would increase debt levels notably, though such risks are difficult to quantify accurately due to lack of quality data on SOEs and PPPs. The authorities' planned structural reforms underpinned by the ECF/EFF program are expected to improve revenues, increase spending efficiency, and boost growth, thereby mitigating further risk of unsustainable debt. As such, Moldova's overall debt trajectory is projected to remain sustainable despite the expansion in fiscal spending under the ECF/EFF program that is needed to achieve pressing developmental goals as well as to support the post-Covid recovery.

12. **Stress tests point to the vulnerability of the public debt dynamics to real GDP growth shock.** A contraction in GDP growth remains the main risk to Moldova's debt sustainability. The threshold for overall public debt-to-GDP ratio is breached starting 2026 under the standard GDP growth shock that includes 2020 in historical averages and variances (Figure 2). This mechanical breach of the threshold is, however, driven by exceptional and transitory factors stemming from the Covid pandemic: Moldova's real GDP growth contracted by 7 percent in 2020, compared with average growth of 4 percent from 2011–19, due to domestic pandemic containment measures and weak external demand, coupled with a drought that decimated the agricultural sector[15]. Staff believes the large shock to GDP growth in 2020 had an exceptional and sizeable temporary effect, with limited scarring impact to the economy. Given this, staff used a ***customized*** stress scenario based on the pre-pandemic stress parameters by dropping 2020 from the calculations of historical average and variances (equivalent to multiplying the calculated standard deviation by a lower factor

[15] The 2020 data lowered the 10-year average growth by 1.1 percentage point while increasing one standard deviation by 1.5 percentage point. Accordingly, the magnitude of the shock (historical average minus one standard deviation) rose by 2.6 percent due to the 2020 contraction.

(0.7)[16] to align it with the pre-pandemic stress test parameters and to maintain comparability across countries and standard stress tests). In this customized stress scenario, the ratio of the present value of debt-to-GDP remains below the threshold (Text Figure 2).

Text Figure 2. Moldova: Indicators of Public Debt Under Alternative Scenarios, 2021–2031



1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

RISK RATING AND VULNERABILITIES

13. Moldova remains at low risk of external and overall debt distress, in line with the previous DSA assessments.

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

- **Moldova's overall public debt dynamics is also projected to remain on a sustainable path under the baseline scenario but remain subject to vulnerabilities.** Stress tests indicate that Moldova's debt sustainability is sensitive to the growth shock scenario. However, in the ***customized*** stress scenario, the debt burden indicator does not breach the threshold. The authorities should continue to maintain fiscal discipline and fiscal risk management. As the

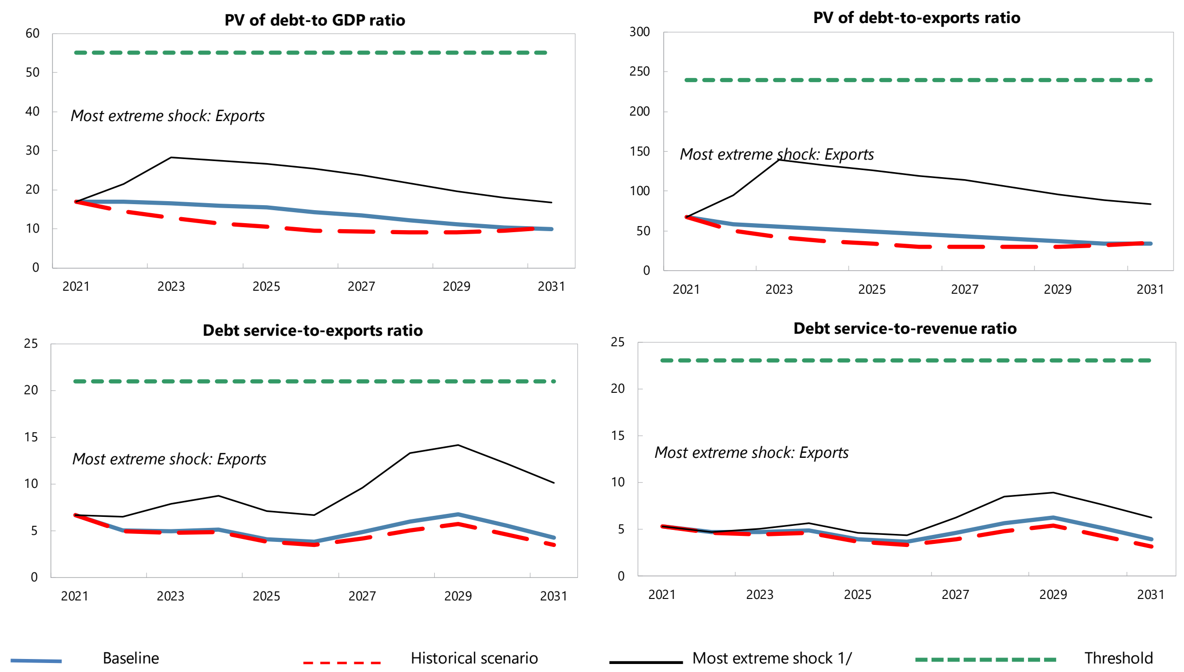
[16] Given that the standard deviation based on 2011–19 data (3 percent) is around 66 percent of the 10-year (2011–2020) based standard deviation (4.5 percent).

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

AUTHORITIES' VIEWS

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

Figure 1. Moldova: Indicators of Public Guaranteed External Debt under Alternative Scenarios, 2021–2031



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

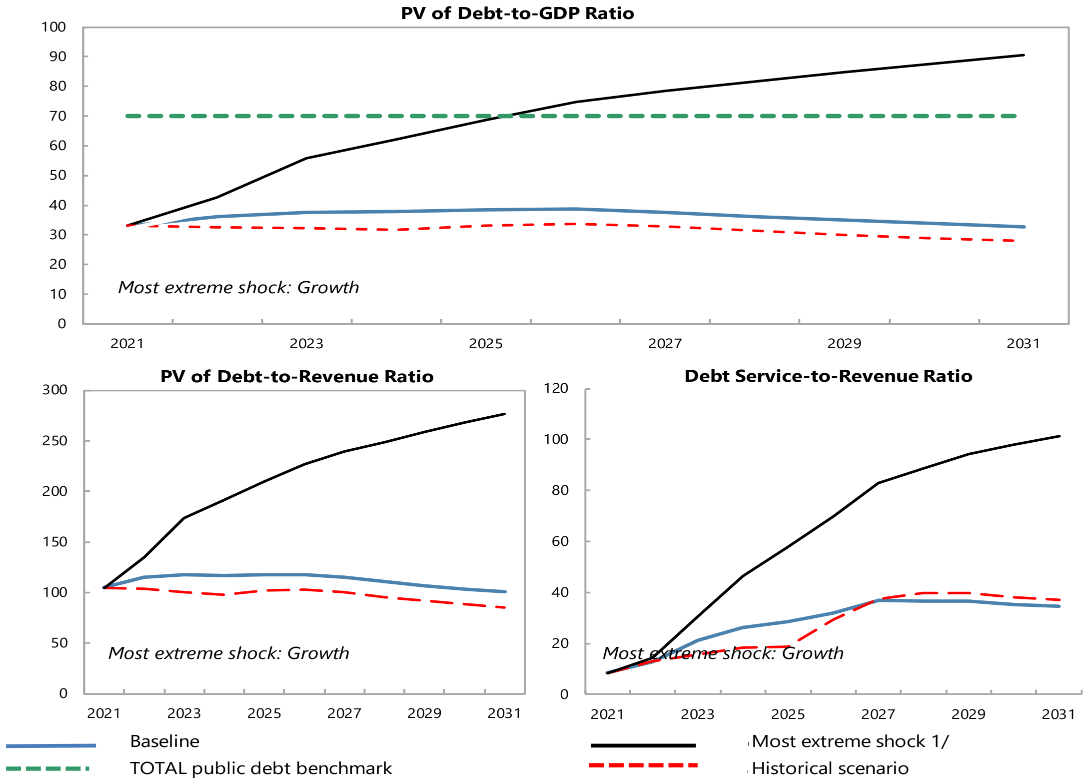
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	4	4

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Moldova: Indicators of Public Debt Under Alternative Scenarios, 2021–2031



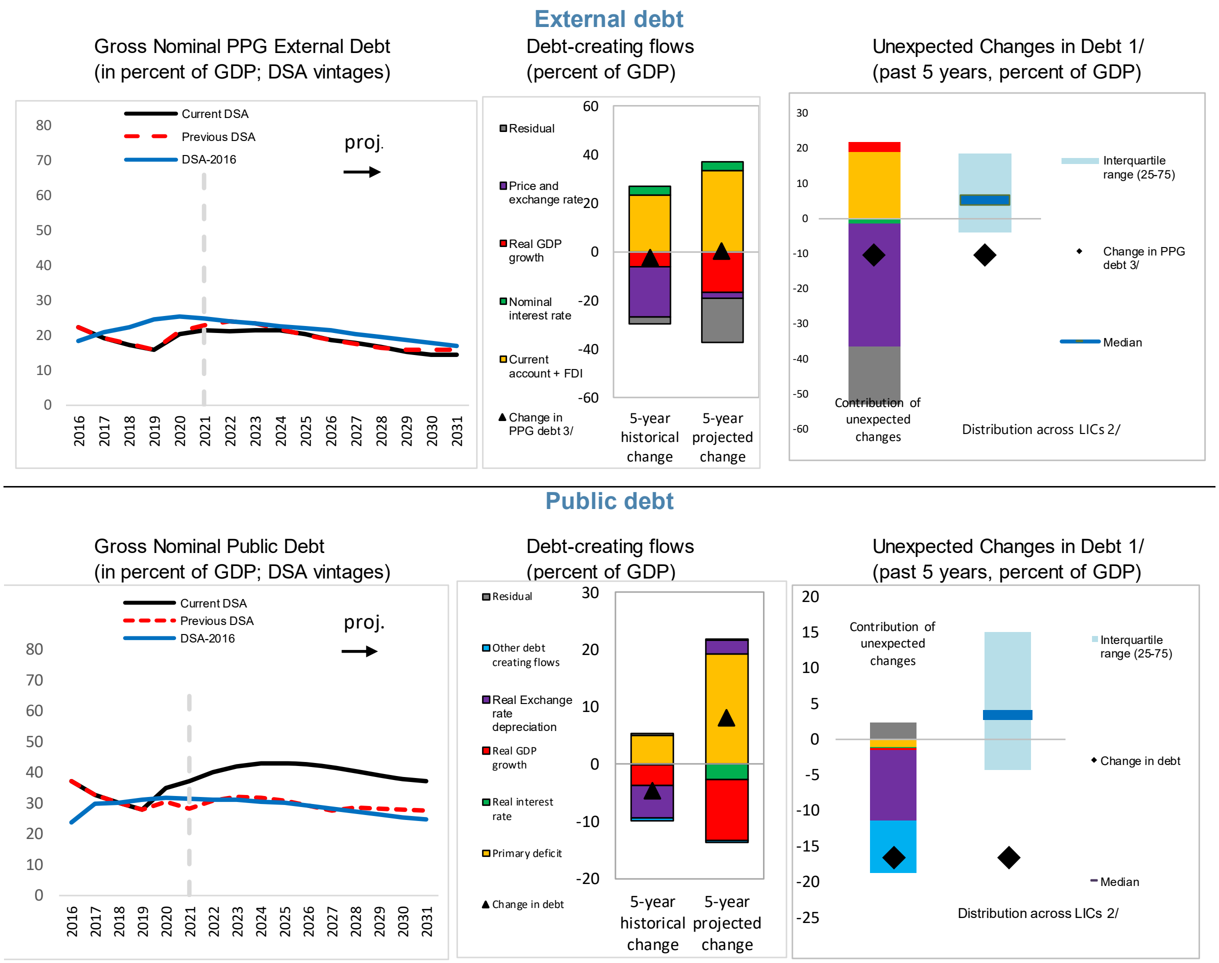
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	17%	17%
Domestic medium and long-term	36%	36%
Domestic short-term	47%	47%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.4%	0.4%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	0.5%	0.5%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



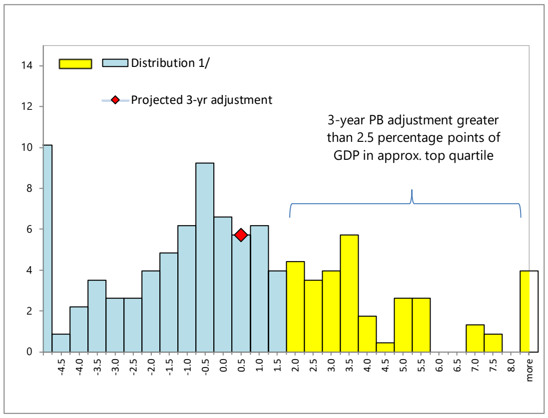
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

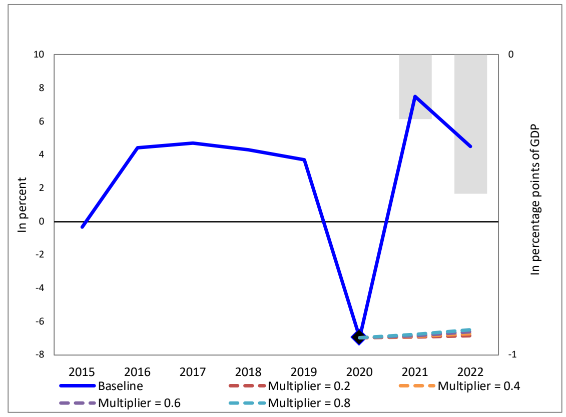
Figure 4. Moldova: Realism Tools

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



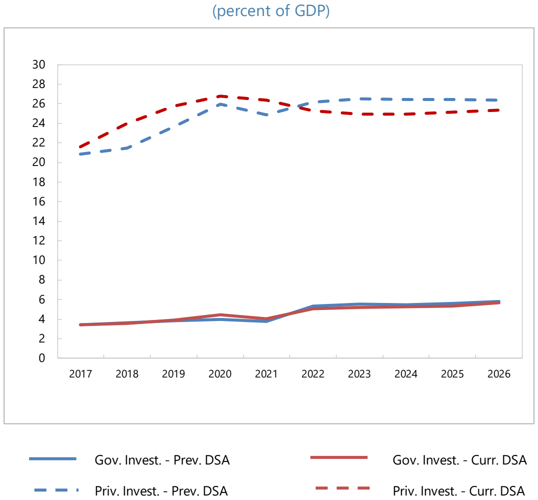
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

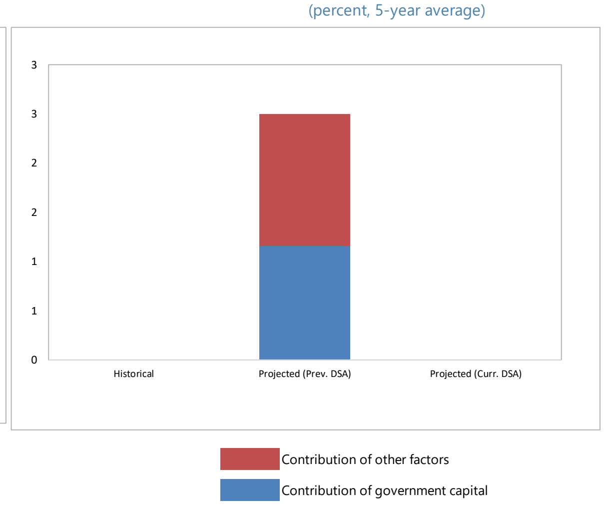
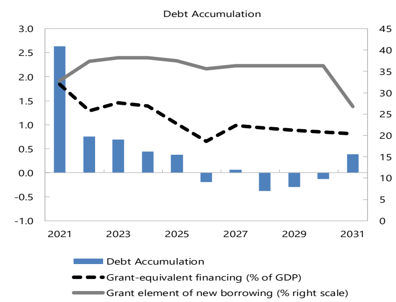


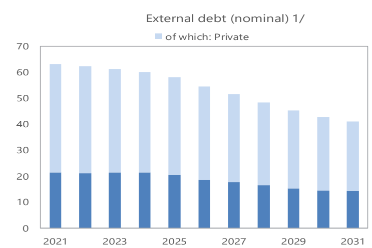
Table 1. Moldova: External Debt Sustainability Framework, Baseline Scenario, 2020–2041

(in percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	**64.8**	**63.1**	**62.3**	**61.2**	**60.0**	**58.0**	**54.4**	**40.9**	**28.3**	**64.4**	**53.4**
of which: public and publicly guaranteed (PPG)	**20.3**	**21.3**	**21.1**	**21.3**	**21.4**	**20.3**	**18.5**	**14.3**	**13.6**	**19.5**	**18.4**
Change in external debt	7.1	-1.7	-0.8	-1.1	-1.2	-2.0	-3.6	-1.7	-1.9		
Identified net debt-creating flows	**6.5**	**5.0**	**5.4**	**4.2**	**3.3**	**2.5**	**2.6**	**2.3**	**1.1**	**2.0**	**3.2**
Non-interest current account deficit	**6.8**	**10.8**	**9.5**	**8.4**	**7.7**	**7.1**	**6.8**	**5.3**	**4.3**	**6.8**	**7.1**
Deficit in balance of goods and services	24.8	20.9	23.4	23.5	22.8	22.0	21.1	17.2	13.7	**27.2**	**20.7**
Exports	30.6	24.8	28.8	29.9	30.5	31.0	31.2	29.5	26.2		
Imports	55.5	45.7	52.3	53.4	53.4	53.0	52.3	46.6	39.9		
Net current transfers (negative = inflow)	-12.0	-12.1	-12.3	-12.2	-12.0	-12.1	-11.8	0.0	0.0	**-13.6**	**-6.6**
of which: official	-0.9	-0.6	-0.6	-0.6	-0.6	-0.8	-0.8	0.0	0.0		
Other current account flows (negative = net inflow)	-6.1	2.0	-1.6	-2.9	-3.1	-2.8	-2.4	-11.8	-9.5	**-6.9**	**-6.9**
Net FDI (negative = inflow)	**-1.3**	**-1.8**	**-1.9**	**-2.0**	**-2.1**	**-2.2**	**-2.3**	**-2.3**	**-2.3**	**-2.4**	**-2.2**
Endogenous debt dynamics 2/	**1.0**	**-4.0**	**-2.2**	**-2.3**	**-2.3**	**-2.3**	**-1.9**	**-0.8**	**-0.8**	**-2.4**	**-1.8**
Contribution from nominal interest rate	0.7	0.5	0.5	1.0	1.0	0.7	0.8	1.2	0.6		
Contribution from real GDP growth	4.0	-4.4	-2.7	-3.2	-3.3	-3.0	-2.7	-2.0	-1.4		
Contribution from price and exchange rate changes	-3.8	...	...	...	...	...	...	...	...		
Residual 3/	**0.6**	**-6.7**	**-6.3**	**-5.3**	**-4.4**	**-4.6**	**-6.2**	**-4.0**	**-3.0**	**-1.9**	**-5.4**
of which: exceptional financing	-1.6	-0.8	-1.5	-1.0	-0.8	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**15.8**	**16.8**	**16.8**	**16.6**	**16.0**	**15.4**	**14.3**	**9.9**	**10.6**		
PV of PPG external debt-to-exports ratio	**51.4**	**67.7**	**58.4**	**55.4**	**52.3**	**49.6**	**45.8**	**33.7**	**40.3**		
PPG debt service-to-exports ratio	**5.8**	**6.7**	**5.0**	**5.0**	**5.1**	**4.1**	**3.8**	**4.3**	**7.1**		
PPG debt service-to-revenue ratio	**5.9**	**5.3**	**4.7**	**4.7**	**4.9**	**3.9**	**3.7**	**3.9**	**5.8**		
Gross external financing need (Million of U.S. dollars)	3607.3	4540.6	4736.5	4872.2	5034.4	5210.8	5470.3	5545.2	7288.5		
Key macroeconomic assumptions											
Real GDP growth (in percent)	-7.0	7.5	4.5	5.5	5.8	5.4	5.0	5.0	5.0	**2.9**	**5.3**
GDP deflator in US dollar terms (change in percent)	7.0	1.7	-0.1	0.4	0.7	0.9	1.1	1.9	1.9	**3.1**	**1.3**
Effective interest rate (percent) 4/	1.2	0.8	0.9	1.7	1.7	1.2	1.5	3.1	2.0	**1.2**	**2.0**
Growth of exports of G&S (US dollar terms, in percent)	5.8	-11.4	21.2	9.8	8.7	7.9	7.0	5.8	5.8	**8.8**	**6.6**
Growth of imports of G&S (US dollar terms, in percent)	3.6	-9.9	19.3	8.3	6.4	5.5	4.8	4.6	5.6	**7.0**	**5.2**
Grant element of new public sector borrowing (in percent)	...	32.8	37.4	38.2	38.2	37.5	35.6	26.7	12.8	**...**	**35.6**
Government revenues (excluding grants, in percent of GDP)	30.0	31.0	31.0	31.5	31.9	32.2	32.3	32.3	32.2	**29.2**	**31.9**
Aid flows (in Million of US dollars) 5/	138.6	212.2	185.9	192.0	196.7	218.3	148.9	173.7	195.4		
Grant-equivalent financing (in percent of GDP) 6/	...	1.8	1.3	1.5	1.4	1.0	0.7	0.8	0.4	**...**	**1.1**
Grant-equivalent financing (in percent of external financing) 6/	...	42.1	49.0	48.5	49.1	54.0	70.4	41.3	23.8	**...**	**51.3**
Nominal GDP (Million of US dollars)	11,912	13,024	13,595	14,405	15,339	16,308	17,307	24,326	48,053		
Nominal dollar GDP growth	-0.5	9.3	4.4	6.0	6.5	6.3	6.1	7.0	7.0	**6.1**	**6.7**
Memorandum items:											
PV of external debt 7/	60.3	58.6	58.1	56.4	54.6	53.0	50.2	36.6	25.3		
In percent of exports	196.8	236.0	201.3	188.7	178.9	171.2	160.7	124.2	96.5		
Total external debt service-to-exports ratio	72.5	89.7	81.5	78.4	75.6	73.1	72.1	59.3	41.6		
PV of PPG external debt (in Million of US dollars)	1877.2	2191.6	2290.3	2384.2	2447.6	2505.8	2473.7	2413.6	5071.9		
(PVt-PVt-1)/GDPt-1 (in percent)		2.6	0.8	0.7	0.4	0.4	-0.2	0.4	0.1		
Non-interest current account deficit that stabilizes debt ratio	-0.4	12.5	10.3	9.6	8.8	9.1	10.4	7.1	6.1		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

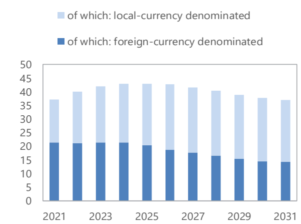
Table 2. Moldova: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–2041

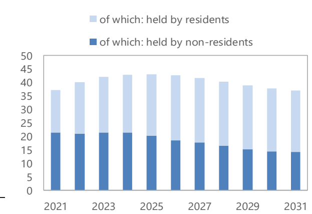
(in percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	**35.0**	**37.1**	**40.0**	**42.0**	**42.9**	**42.9**	**42.6**	**36.9**	**30.3**	**31.5**	**40.3**
of which: external debt	**20.3**	**21.3**	**21.1**	**21.3**	**21.4**	**20.3**	**18.5**	**14.3**	**13.6**	**19.5**	**18.4**
Change in public sector debt	7.1	2.1	2.9	2.0	0.9	0.1	-0.3	-0.8	-0.7		
Identified debt-creating flows	**5.7**	**2.1**	**2.9**	**2.0**	**0.9**	**0.1**	**0.2**	**-0.2**	**-0.7**	**0.8**	**0.7**
Primary deficit	**4.3**	**4.5**	**5.0**	**4.0**	**3.0**	**2.6**	**2.4**	**1.5**	**1.0**	**1.1**	**2.7**
Revenue and grants	30.4	31.6	31.4	32.0	32.4	32.7	32.8	32.6	32.4	**30.4**	**32.4**
of which: grants	0.3	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.2		
Primary (noninterest) expenditure	34.7	36.1	36.4	36.1	35.4	35.3	35.2	34.1	33.4	**31.5**	**35.1**
Automatic debt dynamics	**1.5**	**-2.4**	**-1.9**	**-2.0**	**-2.1**	**-2.5**	**-2.2**	**-1.7**	**-1.7**		
Contribution from interest rate/growth differential	2.2	-3.4	-2.4	-2.4	-2.4	-2.7	-2.4	-1.7	-1.7		
of which: contribution from average real interest rate	0.1	-1.0	-0.8	-0.3	-0.1	-0.5	-0.4	0.1	-0.2		
of which: contribution from real GDP growth	2.1	-2.4	-1.6	-2.1	-2.3	-2.2	-2.0	-1.8	-1.5		
Contribution from real exchange rate depreciation	-0.7	1.0	0.4	0.4	0.3	0.3	0.2	0.0	0.0		
Other identified debt-creating flows	**-0.1**	**0.0**	**-0.2**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.8**	**0.0**
Privatization receipts (negative)	-0.1	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**1.3**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.5**	**-0.6**	**0.0**	**0.0**	**-0.5**
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	**30.4**	**33.1**	**36.1**	**37.6**	**37.8**	**38.3**	**38.7**	**32.8**	**27.6**		
PV of public debt-to-revenue and grants ratio	**100.1**	**104.7**	**114.8**	**117.3**	**116.6**	**117.3**	**118.0**	**100.5**	**84.9**		
Debt service-to-revenue and grants ratio 3/	**25.4**	**8.4**	**13.0**	**21.1**	**26.4**	**28.5**	**31.8**	**34.5**	**25.0**		
Gross financing need 4/	12.0	7.2	8.9	10.7	11.5	11.8	12.8	12.7	9.0		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	-7.0	7.5	4.5	5.5	5.8	5.4	5.0	5.0	5.0	**2.9**	**5.3**
Average nominal interest rate on external debt (in percent)	1.6	0.0	0.4	1.9	2.7	0.4	0.9	4.0	2.7	**1.2**	**2.2**
Average real interest rate on domestic debt (in percent)	0.0	-2.3	-1.9	-1.3	-1.1	-0.9	-0.7	-0.6	-1.7	**-0.6**	**-1.0**
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.0	...	...	...	...	...	...	...	...	**-0.3**	**...**
Inflation rate (GDP deflator, in percent)	5.4	4.8	5.2	5.5	5.5	5.5	5.5	5.0	5.0	**6.1**	**5.2**
Growth of real primary spending (deflated by GDP deflator, in percent)	5.5	11.9	5.4	4.4	4.0	5.0	4.8	4.7	4.8	**3.3**	**5.2**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.8	2.4	2.1	2.1	2.2	2.5	2.7	2.3	1.7	**0.9**	**2.5**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–2031

(in percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of debt-to GDP ratio										
Baseline	17	17	17	16	15	14	13	12	11	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	17	14	13	11	11	9	9	9	9	9	10
B. Bound Tests											
B1. Real GDP growth	17	19	20	20	19	18	17	15	14	13	12
B2. Primary balance	17	17	17	17	16	15	14	13	12	11	11
B3. Exports	17	21	28	27	27	25	24	22	20	18	17
B4. Other flows 3/	17	19	21	20	20	19	17	16	14	13	13
B5. Depreciation	17	21	15	14	14	13	12	11	10	9	9
B6. Combination of B1-B5	17	24	24	24	23	21	20	18	16	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	17	18	19	18	18	18	17	16	15	14	14
Threshold	55	55	55	55	55	55	55	55	55	55	55
	PV of debt-to-exports ratio										
Baseline	68	58	55	52	50	46	43	40	37	34	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	68	50	43	37	34	30	30	30	30	32	35
B. Bound Tests											
B1. Real GDP growth	68	58	55	52	50	46	43	40	37	34	34
B2. Primary balance	68	59	57	54	52	48	46	43	40	38	37
B3. Exports	68	95	139	132	127	119	114	105	96	89	84
B4. Other flows 3/	68	66	70	67	63	59	56	52	48	44	42
B5. Depreciation	68	58	40	37	35	32	30	27	25	24	24
B6. Combination of B1-B5	68	91	69	85	81	75	71	65	60	55	53
C. Tailored Tests											
C1. Combined contingent liabilities	68	63	62	60	59	56	55	52	50	48	48
Threshold	240	240	240	240	240	240	240	240	240	240	240
	Debt service-to-exports ratio										
Baseline	7	5	5	5	4	4	5	6	7	6	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	7	5	5	5	4	3	4	5	6	5	3
B. Bound Tests											
B1. Real GDP growth	7	5	5	5	4	4	5	6	7	6	4
B2. Primary balance	7	5	5	5	4	4	5	6	7	6	5
B3. Exports	7	7	8	9	7	7	10	13	14	12	10
B4. Other flows 3/	7	5	5	5	4	4	6	7	8	7	5
B5. Depreciation	7	5	5	5	4	4	5	5	6	4	3
B6. Combination of B1-B5	7	6	7	7	6	5	8	9	10	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	7	5	5	5	4	4	5	6	7	6	5
Threshold	21	21	21	21	21	21	21	21	21	21	21
	Debt service-to-revenue ratio										
Baseline	5	5	5	5	4	4	5	6	6	5	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	5	5	4	5	4	3	4	5	5	4	3
B. Bound Tests											
B1. Real GDP growth	5	5	6	6	5	5	6	7	8	6	5
B2. Primary balance	5	5	5	5	4	4	5	6	6	5	4
B3. Exports	5	5	5	6	5	4	6	8	9	8	6
B4. Other flows 3/	5	5	5	5	4	4	5	7	7	6	5
B5. Depreciation	5	6	6	6	5	4	6	6	7	5	4
B6. Combination of B1-B5	5	5	6	6	5	5	7	8	8	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	5	5	4	4	5	6	6	5	4
Threshold	23	23	23	23	23	23	23	23	23	23	23

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

Table 4. Moldova: Sensitivity Analysis for Key Indicators of Public Debt 2021–2031
(in percent)

					Projections 1/						
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	33	36	38	38	38	39	38	36	35	34	33
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	33	33	32	32	33	34	33	31	30	29	28
B. Bound Tests											
B1. Real GDP growth	33	43	56	62	69	**75**	**79**	**82**	**85**	**88**	**91**
B2. Primary balance	33	37	40	40	41	41	40	38	37	36	34
B3. Exports	33	41	49	49	49	49	48	45	43	41	39
B4. Other flows 3/	33	38	42	42	43	43	42	40	38	37	35
B5. Depreciation	33	37	36	35	34	33	30	27	24	22	19
B6. Combination of B1-B5	33	36	40	42	44	46	46	45	45	45	45
C. Tailored Tests											
C1. Combined contingent liabilities	33	47	48	48	47	47	46	44	42	41	39
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	105	115	117	117	117	118	115	111	107	104	101
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	105	104	100	97	102	103	100	96	92	88	86
B. Bound Tests											
B1. Real GDP growth	105	135	174	191	210	227	239	249	258	268	277
B2. Primary balance	105	119	125	124	124	124	121	116	112	109	105
B3. Exports	105	129	152	151	150	150	146	139	132	126	121
B4. Other flows 3/	105	122	132	130	131	131	127	122	117	113	109
B5. Depreciation	105	119	112	107	103	99	91	82	74	67	60
B6. Combination of B1-B5	105	116	126	130	134	139	139	138	137	137	136
C. Tailored Tests											
C1. Combined contingent liabilities	105	151	150	147	145	144	140	134	129	125	121
Debt Service-to-Revenue Ratio											
Baseline	8	13	21	26	28	32	37	37	36	35	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	8	13	16	18	19	29	38	40	40	38	37
B. Bound Tests											
B1. Real GDP growth	8	14	31	47	58	70	83	89	94	98	101
B2. Primary balance	8	13	23	30	32	35	40	39	39	38	37
B3. Exports	8	13	21	27	29	32	38	39	39	38	37
B4. Other flows 3/	8	13	21	27	29	32	38	38	37	36	35
B5. Depreciation	8	13	21	23	26	29	35	35	34	32	31
B6. Combination of B1-B5	8	13	23	29	34	39	46	47	48	48	48
C. Tailored Tests											
C1. Combined contingent liabilities	8	13	39	41	43	44	47	46	44	42	40

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Statement by Luc Dresse, Alternate Executive Director, and Dries Cools, Advisor, for the Republic of Moldova
December 20, 2021

The Moldovan authorities wish to thank Mr. Atoyan, mission chief, Mr. Chawani, Resident Representative and the entire team for the in-depth and constructive engagement. They subscribe to the thrust of the outstanding Staff Report and Selected Issues Papers. They have requested a successor program with a triple aim. First, the requested ECF-EFF program will help Moldova to deal with the fallout from the triple shock caused by a drought, the COVID-19 pandemic and the energy crisis. Second, it will support the government in its broad-based governance agenda. Third, it will help to close the income convergence gap with European peers.

This program is being submitted to the Board three months after a government with a wide parliamentary mandate took office based on an anticorruption and governance platform. The present program fully underwrites the authorities' policy platform. The authorities are aware of capacity constraints that might affect the implementation of the largest reform agenda in decades. At the same time, the set of actions highlighted in the report and the authorities' memorandum will help address these weaknesses. Considering the scale of the reform agenda, they deem a 40 month-engagement to be appropriate. They are grateful for the extensive technical assistance received from the IMF and other partners.

This program builds further on the previous ECF-EFF program which was successfully concluded in 2020. After the 2014 banking fraud, that program successfully rehabilitated the banking sector, including the improvement of governance and the reinstatement of fit and proper shareholders. In Figure 4, staff explains that the banking sector entered the pandemic on a strong footing thanks to reforms under the previous ECF-EFF. Solvency and liquidity levels are strong, while non-performing loan levels have come down to 6.5% of total loans.

Upon concluding the previous program, the authorities, staff and the Executive Board agreed that a successor program would need to focus on broader structural governance challenges. To that effect, the authorities requested an IMF Country Governance Assessment, which was published in July 2021. This Assessment contains a detailed roadmap for governance reforms.

Recent Developments and Outlook

Moldova has been hit hard by the drought, the pandemic and the energy crisis. The Rapid Credit Facility/Rapid Financing Instrument, as well as the SDR Allocation, have been helpful to cushion the immediate impacts of these crises. From the side of the authorities, the monetary response to the COVID-19 crisis has been swift, and data driven. The fiscal response, however, has been rather small, and hampered by under-spending. This points at capacity issues, and the need to improve budget execution.

Moldova has also been hit hard by the energy crisis, putting a significant upwards pressure on retail gas prices. The authorities have reached an agreement with Gazprom, which has stabilized prices and guarantees a steady supply. In the meantime, however, sustained higher energy prices interfere with Moldova's development financing needs. The recently approved 2022 budget and the amended 2021 budget contain several targeted support measures for vulnerable households affected by COVID-19 and the energy crisis.

Beyond the immediate set of crises, Moldova faces mid- and long-term development financing needs. The present program is a first step towards closing SDG outcome gaps with Central, Eastern, and South Eastern European countries. It is expected to leverage further external support for development. It will contribute to Moldova's development by helping to build more efficient institutions and state-owned enterprises. Finally, it will safeguard key social and development spending with specific spending floors.

The authorities broadly agree with staff's outlook and assessment of risks. They are concerned about scarring effects resulting from the pandemic. COVID-19 cases are ebbing, following a wave of infections. However, risks from new variants remain very high. The authorities are closely monitoring the situation and are continuing their vaccination campaign.

The authorities agree with staff's assessment of Moldova's macro-economic fundamentals. Moldova is at a low risk of debt distress, and its external position in 2020 was broadly in line with the level implied by medium-term fundamentals and desirable policies. Throughout the COVID-19 crisis, Moldova's external position has been sustained by stronger than expected remittances. Going forward, a successful IMF program is expected to catalyze greater external financing. To prevent competitiveness concerns from worsening, the authorities want to root out corruption to regain trust in the government and in the social contract.

Governance

Governance and the fight against corruption is the crux of this program. The 2021 Governance Assessment Report is the basis for the present program, which closely tracks the 2018 IMF Framework for Enhanced Engagement on Governance. It contains reforms for each of the six state functions identified in the 2018 Framework, i.e., fiscal governance; financial sector oversight; central bank governance and operations; quality of market regulation; rule of law and the anti-corruption framework; and AML-CFT.

The Moldovan authorities consider the building of professional and independent institutions the key to development. Governance dysfunction is among the reasons people leave the country. Improving governance can halt this brain drain. Reversely, the government is appealing to talented people in the diaspora who could contribute to better governance in Moldova.

Since the 2016 program, the National Bank of Moldova ('NBM') has strongly improved its *de iure* and *de facto* governance. The independence of the NBM has been recently affirmed with the appointment of three new deputy governor positions in line with professional, integrity, and procedural requirements of the NBM Law, as well as the adoption of legislative provisions regarding *inter alia* the finality of supervisory decisions. In addition, the NBM will implement the outstanding recommendations of the Safeguards Assessment by mid-2022.

Many other institutions in Moldova still have a longer way to go. The authorities are committed to professionalize these institutions and make them fully independent in line with constitutional and international principles. The authorities are conscious, however, that institutions must be freed from vested interests before they can operate independently.

Financial sector

The 2016 program laid the groundwork for a healthy banking sector. The 2021 Financial Sector Stability Review contains a wide set of recommendations for the next steps that will be rolled out in a multi-year TA program. These next steps lie to a large degree beyond the macroprudential banking sector.

First, supervision of nonbank credit organizations (NBCO's), as well as insurance firms will be brought under the umbrella of the NBM. This will allow the NBM to leverage its expertise in supervising banks to supervise non-bank institutions. The effective independence of the NBM makes it the appropriate authority to assume these new responsibilities. The transfer of these responsibilities will first require asset quality and corporate governance reviews of insurance companies, as well as solvency assessment reviews and resolution strategies ensuring the transfer of healthy assets and operations to viable companies.

NBCO's have taken an ever-greater role in credit provisioning to households and SMEs since the 2014 banking fraud. This is well explained in the Selected Issues Paper. Going forward, the authorities agree with staff that financial inclusion concerns should be integrated when improving macroprudential supervision. More broadly, the authorities agree that an encompassing action plan on financial inclusion is needed to further intensify financial inclusion efforts.

Second, the authorities agree that macroprudential supervision should be strengthened. Especially consumer lending and real estate lending developments need to be closely watched.

Third, after the 2014 banking fraud, Moldova markedly improved its AML/CFT framework. Going forward, the authorities are committed to implementing all the Moneyval recommendations by the end of 2022. Finally, the authorities will work with staff to strengthen the resolution and liquidation framework.

Monetary Policy

Moldova's inflation targeting framework has worked rather well since its implementation. The NBM is committed to continue a data driven monetary policy, which will further strengthen the credibility of its inflation targeting framework. The NBM has followed this approach throughout the COVID-19 crisis in close consultation with staff.

Staff rightly recognized that FX purchases in the past – while solely intended to address disorderly market conditions – have at times interfered with increases in the policy rate. Staff recognizes that this interference has abated since the 2019 adoption of an FXI Strategy. Going forward, the NBM intends to continue to reduce its FX footprint and to further improve coordination with the use of the policy rate instrument.

Fiscal Policies

The authorities are firmly committed to safeguard debt sustainability while making room for much-needed development spending. The Moldovan parliament recently approved the undoing of the pension reform reversals by the previous government. They also approved the 2022 budget, as well as an amended 2021 budget including targeted support measures for households affected by the energy crisis, while keeping the deficit at 6% of GDP. Going forward, extensive efforts to improve revenue mobilization and expenditure policies will be needed to make room for necessary development spending. While certain tax expenditures have a real social utility, a broad-based tax expenditure review should allow the authorities to triage between desirable and less desirable tax expenditures. Following the completed spending reviews in the education and agriculture sector, the authorities are committed to institutionalizing spending reviews and extend them to the health sector. Finally, they are well-aware of chronical under-execution of spending. They are committed to improving public financial management, including the implementation of the recommendations of the 2019 Public Investment Management Assessment.

SOEs / Market regulation

Moldova has a large SOE sector. The authorities agree with the detailed analysis in the Selected Issues Paper, as well as with the roadmap for reform, including a triage approach based on explicit public policy objectives. They agree that a clear division of labor shall be made between the role of the state as regulator and the role of the state as owner, the latter of which is best exercised through the Public Property Agency. The authorities fully agree with the recommendations made for improved SOE governance, including independent and professional boards of directors, internal control mechanisms, financial reporting, and close monitoring of fiscal risks.

Rule of Law / Corruption

The authorities fully endorse staff's close attention to corruption and rule of law issues. They will strengthen the prosecution and sanctioning of corruption offenses. They will make better use of the existing asset declaration framework, *inter alia* to better identify illicit enrichment. They are committed to professionalize the judiciary.

Finally, the authorities are deeply committed to international asset recovery efforts following the 2014 banking fraud. They call on other countries where proceeds of the stolen assets are located to follow through on mutual legal assistance requests. International asset recovery efforts are expected to be supported under a new EU Macro-Financial Assistance program, in close coordination with IMF staff.

Conclusion

Moldova has embarked on an ambitious transformational program. The stars are well aligned to bring this transformation to a good end, notwithstanding the current challenges. Well-functioning institutions will be the key to Moldova's development. The authorities recognize that the road ahead is difficult, and that capacity constraints abound. They thank international partners for their continued support. They look forward to warmly welcoming Mr. Atoyan and the team in Chisinau to discuss the first review.