INTERNATIONAL MONETARY FUND

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REPUBLIC OF MOLDOVA

December 2024

SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND THE EXTENDED FUND FACILITY ARRANGEMENTS, REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE ALTERNATIVE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOLDOVA

In the context of the Sixth Review Under the Extended Credit Facility and the Extended Fund Facility Arrangements, Request for Modifications of Performance Criteria, and Second Review Under the Resilience and Sustainability Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 17, 2024, following discussions that ended on November 19, 2024, with the officials of the Republic of Moldova on economic developments and policies underpinning the IMF arrangements under the Extended Fund Facility and the Extended Credit Facility and the Resilience and Sustainability Facility. Based on information available at the time of these discussions, the staff report was completed on December 2, 2024.
- A **Supplementary Information** updating information on recent developments.
- A **World Bank Assessment Letter for the Resilience and Sustainability Facility**.
- A **Statement by the Alternate 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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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes the Sixth Reviews Under the Extended Credit Facility and Extended Fund Facility, and Second Review Under the Resilience and Sustainability Facility for the Republic of Moldova

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed on December 17, 2024, the sixth review under the Extended Credit Facility/Extended Fund Facility (ECF/EFF), and the second review under Resilience and Sustainability Facility (RSF) with Moldova, allowing for a disbursement totaling SDR 122.2 million (about $162.6 million).
- The recovery from adverse spillovers from Russia's war in Ukraine and energy price shocks is taking hold. Growth picked up in 2024 and is expected to strengthen further in 2025, driven by robust domestic demand. Downside risks remain high, mainly related to Russia's war in Ukraine and renewed energy shocks.
- While quantitative performance of the program has been strong, implementation of structural reforms has been uneven. Further reforms to enhance fiscal performance and the allocation of public resources, strengthen energy security, strengthen governance and the rule of law, and advance climate adaptation and mitigation are key to protect Moldova against shocks and improve its growth prospects.

Washington, DC – December 17, 2024: The Executive Board of the IMF concluded the sixth reviews under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF)[1] and the second review under the Resilience and Sustainability Facility (RSF)[2], for the Republic of Moldova. This allows for a total disbursement of SDR 122.2 million (about $162.6 million) under both programs, usable for budget support. This brings Moldova's total disbursements under the ongoing program arrangements to about $810.2 million.

"The economic recovery is taking hold with growth projected at 2.6 percent this year and 3 percent next year. The fiscal deficit is projected to decline from 5.2 percent of GDP in 2023 to 4.4 percent in 2024 and 4.0 percent in 2025 reflecting stronger-than-expected revenues, driven by buoyant wage and import growth and contained spending. Inflation has remained broadly within the National Bank of Moldova's (NBM) 5 ± 1.5 percent target corridor since

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[1] The ECF provides financial assistance that is flexible and tailored to the diverse needs of low-income countries (LICs), including in times of crisis (e.g., protracted balance of payments problems). The EFF provides assistance to all countries that experience serious payment imbalances because of structural impediments or slow growth and an inherently weak balance-of-payments position. The 40-month ECF/EFF arrangements with Moldova were approved in December 2021 (Press Release) and augmented in May 2022 to increase total access under the arrangements to SDR 594.26 million (Press Release).

[2] The RSF provides longer-term financing to strengthen economic resilience and sustainability by (i) supporting policy reforms that reduce macro-critical risks associated with climate change or pandemic preparedness, and (ii) augmenting policy space and financial buffers to mitigate the risks arising from such longer-term structural challenges. Moldova's RSF was approved in December 2023 (Press Release).

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October 2023. The outlook remains subject to significant uncertainty, with large downside risks, mainly related to the war in Ukraine and renewed energy shocks. By contrast, faster progress on structural reforms, including under the EU Growth Plan for Moldova, and steady progress on the EU accession path represent upside risks.

“While quantitative performance of the program has been strong, implementation of structural reforms has been uneven. The authorities completed conditionality related to financial inclusion, the insurance sector, and state-owned enterprises, and submitted legal amendments to Parliament to strengthen NBM’s autonomy and governance. Agreed actions to establish the Anti-Corruption Court (ACC) and ensure appropriate staffing of the Anti-Corruption Prosecutor’s Office (APO) are pending. The switch from providing in-bill energy subsidies to targeted cash transfers took place in time for the current heating season and the government approved a disaster risk management program. Two other RSF reform measures are in progress but will require more time to complete.

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

“While economic recovery picked up in 2024 and is expected to continue in 2025, risks remain tilted to the downside. The authorities should pursue prudent policies and maintain buffers and robust contingency plans, including in the energy sector, while fostering growth-friendly investment and reforms, which will be also supported by the EU accession process.

Fiscal policy should remain on a gradual consolidation path to create space for addressing shocks and for growth-enhancing investment, while continuing to protect the most vulnerable. Policies should also focus on improving budget planning and capital investment execution and raising revenues.

While inflationary pressures have receded, energy and other shocks call for a cautious, data-driven approach to monetary policy and for maintaining sufficient foreign exchange buffers. The base rate is now at an appropriate level, and normalization of still-high reserve requirements should be implemented gradually, carefully monitoring developments in the real estate and foreign exchange markets. The current prudential requirements on share ownership in the banking sector should be maintained to safeguard macro-financial stability. The upcoming FSAP will take stock of financial sector developments and inform the reform agenda going forward.

Continued progress on anti-corruption reforms is needed to further increase trust in Moldova’s institutions and foster socio-economic development. To this end, adoption of the law establishing a new ACC and ensuring appropriate staffing of the APO are key priorities. Efforts to strengthen the governance, autonomy, and transparency of the National Bank of Moldova should continue.

The authorities should step up implementation of the RSF arrangement to complete the two delayed reform measures for this review and advance on the remaining climate policy agenda. Progress in this area is important to build resilience to climate change, catalyze financing for green investments, and support sustainable long-term development.”

Moldova: Selected Economic Indicators, 2019–2029 [1/]

	2019	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029
						5th Review	Proj.	5th Review	Proj.	Proj.	Proj.	Proj.	Proj.
						(Percent change, unless otherwise indicated)							
Real Sector Indicators													
Gross domestic product													
Real growth rate	3.6	-8.3	13.9	-4.6	0.7	2.6	2.6	3.7	3.0	4.4	5.0	5.0	5.0
Domestic Demand	4.1	-7.5	16.6	-1.9	-4.0	3.9	4.0	4.4	3.8	4.9	5.0	5.0	5.1
Consumption	3.7	-7.9	14.8	-2.2	-0.8	3.3	3.5	4.0	3.4	4.6	4.6	4.6	4.6
Private	-0.9	2.9	17.4	-4.7	-0.3	2.7	3.0	3.5	3.0	4.4	4.4	4.4	4.4
Public	47.6	16.1	3.0	10.7	-3.3	6.0	6.0	6.4	5.5	5.5	5.5	5.5	5.5
Gross fixed capital formation	12.0	5.6	1.9	-10.5	-1.3	5.8	5.0	6.2	5.5	6.0	6.7	6.8	7.2
Net Exports of goods and services	-3.8	2.8	-25.6	-8.7	2.9	-9.3	-10.1	-7.7	-7.1	-6.9	-5.2	-5.1	-5.5
Exports of goods and services	8.2	-14.9	17.5	26.7	5.4	3.7	-4.3	5.4	6.4	6.7	7.9	8.7	8.3
Imports of goods and services	6.2	-9.5	21.2	18.2	-5.2	6.0	1.5	6.4	6.7	6.8	6.8	7.2	7.2
Nominal GDP (billions of Moldovan lei)	206.3	199.7	242.1	274.5	300.5	329.1	320.6	360.0	348.4	383.8	425.2	471.2	522.1
Nominal GDP (billions of U.S. dollars)	11.7	11.5	13.7	14.5	16.6	18.1	18.1	19.6	18.9	20.8	22.9	25.2	27.8
Output Gap (percent of potential GDP)	1.1	-7.4	2.0	-5.4	-3.9	...	-2.9	...	-2.6	-1.0	-0.1	-0.1	0.0
Consumer price index (average)	4.8	3.8	5.1	28.7	13.4	5.0	4.6	5.0	5.0	5.0	5.0	5.0	5.0
Consumer price index (end of period)	7.5	0.4	13.9	30.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	5.3	5.6	6.4	18.9	8.7	6.8	4.0	5.5	5.5	5.5	5.5	5.5	5.5
Average monthly wage (Moldovan lei)	7,356	8,104	9,114	10,531	12,355	11,475	14,000	12,475	15,125	16,575	18,250	20,100	22,125
Average monthly wage (U.S. dollars)	419	468	516	556	682	630	791	681	822	896	982	1076	1179
Unemployment rate (annual average, percent)	5.1	3.8	3.3	3.1	4.6	3.5	3.7	3.5	3.7	3.7	3.7	3.7	3.7
						(Percent of GDP)							
Saving-Investment Balance													
Foreign saving	9.5	7.8	12.4	17.2	11.9	11.2	14.9	10.7	12.9	12.1	11.7	11.3	10.7
National saving	15.6	16.1	14.4	10.1	8.8	11.6	4.1	12.0	6.7	7.8	8.6	9.3	10.4
Private	13.4	17.5	13.8	8.7	9.1	13.2	5.9	12.3	7.3	7.9	8.2	8.6	9.2
Public	2.2	-1.4	0.6	1.4	-0.3	-1.5	-1.8	-0.3	-0.7	-0.1	0.4	0.7	1.1
Gross investment	25.1	23.9	26.9	27.3	20.7	22.9	19.0	22.8	19.6	19.9	20.3	20.6	21.1
Private	21.5	20.2	23.4	22.6	16.6	19.5	16.0	19.3	16.4	16.7	16.9	17.1	17.4
Public	3.6	3.6	3.5	4.7	4.2	3.3	3.0	3.4	3.1	3.3	3.4	3.5	3.7
Fiscal Indicators (General Government)													
Primary balance	-0.8	-4.7	-2.0	-2.3	-4.4	-4.0	-3.3	-2.9	-3.1	-2.8	-2.4	-2.3	-2.1
Overall balance	-1.5	-5.3	-2.6	-5.1	-5.2	-5.0	-4.4	-3.8	-4.0	-3.5	-3.1	-2.9	-2.7
Overall balance (baseline, no policy adjustment) 3/	-1.5	-5.3	-2.6	-3.2	-5.2	-5.0	-4.4	-3.8	-4.0	-3.5	-3.1	-2.9	-2.7
Stock of public and publicly guaranteed debt	28.1	35.6	34.6	36.6	36.6	38.6	38.2	38.0	39.3	38.6	37.4	36.3	34.6
						(Percent change, unless otherwise indicated)							
Financial Indicators													
Broad money (M3)	8.2	19.6	11.3	5.2	18.4	18.0	18.4	13.6	11.7	11.1	...	...	...
Velocity (GDP/end-period M3; ratio)	2.3	1.9	2.0	2.2	2.0	1.9	1.8	1.9	1.8	1.8	...	...	...
Reserve money	7.6	18.8	3.4	30.3	9.9	21.9	14.9	...	14.8	11.1	...	...	...
Credit to the economy	11.5	10.3	21.0	8.9	2.8	8.2	18.3	13.3	16.2	11.4	...	...	...
Credit to the economy, percent of GDP	21.4	24.4	24.4	23.4	22.0	21.7	24.4	22.5	26.1	26.4	...	...	...
						(Millions of U.S. dollars, unless otherwise indicated)							
External Sector Indicators 2/													
Current account balance	-1117	-901	-1699	-2498	-1974	-2026	-2703	-2107	-2440	-2519	-2670	-2843	-2976
Current account balance (percent of GDP)	-9.5	-7.8	-12.4	-17.2	-11.9	-11.2	-14.9	-10.7	-12.9	-12.1	-11.7	-11.3	-10.7
Remittances and compensation of employees (net)	1,729	1,669	1,826	1,519	1,561	1,693	1,488	1,862	1,598	1,758	1,934	2,127	2,340
Gross official reserves 3/	3,060	3,784	3,902	4,474	5,453	6,009	5,871	6,000	5,757	6,150	6,326	6,546	6,856
Gross official reserves (months of imports)	6.2	5.7	4.6	5.4	6.5	6.6	6.7	6.1	6.1	5.9	5.5	5.2	5.0
Exchange rate (Moldovan lei per USD, period average)	17.6	17.3	17.7	18.9	18.1	18.2	17.7	18.3	18.4	18.5	18.6	18.7	18.8
Exchange rate (Moldovan lei per USD, end of period)	17.2	17.2	17.7	19.2	17.4	18.6	18.0	18.7	18.8	18.9	19.0	19.1	18.7
Real effective exch.rate (average, percent change)	2.1	5.1	-1.6	6.9	11.0	-7.0	4.3	2.1	-0.3	2.4	2.5	2.5	2.5
External debt (percent of GDP) 4/	61.9	70.0	63.3	66.5	62.2	65.3	61.0	67.6	62.6	58.6	58.5	57.6	56.0
Debt service (percent of exports of goods and services)	13.4	15.8	11.9	8.8	11.1	12.9	14.0	13.3	14.3	15.1	13.6	11.5	10.1

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

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

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

4/ Includes private and public and publicly guaranteed debt.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

December 2, 2024

SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context. Recovery from the multiple shocks is taking hold, after a slow pace in 2023. EU accession negotiations have started, providing an opportunity to advance decisively with reforms and benefit from additional financing. The EU path was confirmed by an October referendum, but with a narrow margin. President Sandu secured a second term in elections in early November; parliamentary elections are planned in mid-2025.

Recent developments and risks. Growth is projected at 2.6 percent in 2024 and 3 percent in 2025, supported by recovery in private consumption and investment. Growth is expected to strengthen in the medium term, as uncertainty subsides and effects of EU accession and ECF/EFF and RSF related reforms kick-in. Downside risks remain large, including related to Russia's war in Ukraine, possible renewed energy shocks, and potential policy reversals after parliamentary elections. EU financial support and reforms in the context of the Growth Plan for Moldova represent upside risks.

Policies. Further reforms to enhance fiscal performance and the allocation of public resources, strengthen governance and the rule of law, and advance climate adaptation and mitigation, are key to protect against shocks and improve growth prospects.

- Fiscal policies should continue to prioritize better-targeted social assistance, energy security, and better execution of growth-enhancing investment, while remaining on the path of gradual consolidation. A second supplementary 2024 budget reflected stronger revenues, slow capital project execution, and spending reallocation. The 2025 budget and medium-term fiscal policies should continue to balance development needs with creating space to prepare for shocks and increase public investment.

- Monetary policy should remain data-driven and forward-looking, given the uncertain environment. Maintaining a strong supervisory and regulatory framework, including tight requirements on share ownership in the banking sector, and strengthening AML/CFT frameworks are key.

- Advancing the anti-corruption reform agenda and keeping momentum on SOE reforms will enhance transparency and trust in public institutions, reduce fiscal risks, and improve the business environment.

ECF/EFF. Performance is mixed, with good quantitative performance, except for the June indicative target (IT) on the wage bill that was missed by a small margin, while only two out of six structural reforms planned for this review were met. Structural reforms could pick up now that the presidential elections and referendum have concluded, but the window may be short-lived ahead of parliamentary elections. The September structural benchmark (SB) on adoption of an anti-corruption adjudication infrastructure law was not met but is expected to be implemented with delay by end-December 2024. The November SB to enhance independence of the Anti-Corruption Prosecutor's Office through its participation in the selection of its prosecutors and hiring its own investigators was not met, as it was deemed by the authorities to face constitutional challenges and pose operational and legal risks, respectively. The authorities have proposed to replace the unmet SB with a new, modified SB, achieving important steps towards the same objective, to be completed by end-March 2025. Staff supports this. The SB on submitting to Parliament, by end-November 2024, amendments to strengthen NBM independence and governance, will be completed as a prior action for this review. The September SB on advancing SOE reforms was also implemented with a delay. SBs on financial inclusion and adoption of secondary legislation for Pillar II and III of Solvency II were met. New SBs aiming to enhance the VAT framework, start phasing out tax expenditures, improve the public sector salary structure, and strengthen the framework for assessing SOE-related fiscal risks have been added. Staff supports the authorities' request to modify the ceiling on the general government cash deficit at end-December 2024 and end-June 2025, to reflect higher than projected revenues, and the floor on net international reserves, to build additional buffers.

RSF. The measure to delink provision of support under the Energy Vulnerability Relief Fund from consumption by moving from in-bill subsidies to targeted cash transfers was implemented in time for the current heating season. All other reform measures for the Second Review are in progress but will require more time, given their complexity and the need for coordination among stakeholders, and are expected to be completed by the Third Review.

Approved By:
Mark Horton (EUR) and Jarkko Turunen (SPR)

Discussions were held in person in Chișinău and Washington and remotely during September 23–November 19, 2024. The mission met with Prime Minister Recean, Deputy Prime Minister and Minister of Economy Alaiba, Minister of Finance Belous, Minister of Energy Parlicov, Minister of Justice Mihailov-Moraru, Minister of Labor and Social Protection Buzu, National Bank Governor Dragu, Speaker of the Parliament Grosu, Chair of the National Commission for Financial Markets Budianschi, General Director of the Public Property Agency Cojuhari, Director of the National Agency for Energy Regulation Taran, and other senior officials and representatives of financial institutions, international organizations, the private sector, and development partners. The mission team comprised A. Iancu (head), N. Biljanovska, P. Engler, A. Lenarčič (all EUR), S. Beer (FAD), A. De Castro (LEG), G. Afavi (SPR), S. Sola (MCM), and S. Cerović (Resident Representative). K. Funke (FAD) supported the climate-related agenda. L. Dresse and V. Volociuc (OED) participated in the meetings. C. Batlle and Y. Zha (both EUR), and O. Scerbatchi, V. Buicli, and N. Culava, from the IMF office in Chişinău, assisted the mission.

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CONTEXT

1. **Moldova's recovery is proceeding amid progress towards EU accession.** Recovery from adverse spillovers from Russia's war in Ukraine and energy price shocks is taking hold. Uncertainty, however, remains elevated due to geopolitical tensions and possible further energy shocks. EU accession negotiations started formally in June 2024.[1] Discussions of the reform agenda under the recently-announced €1.8 billion EU Growth Plan for Moldova (2025–27) are underway.[2]

2. **Presidential elections and a referendum on EU integration took place in October and November.** Incumbent President Sandu was elected for a second term in the second round of voting on November 3. The referendum, held on October 20, was in favor of moving forward with EU accession although by a narrow margin. Parliamentary elections are expected to be held in 2025Q3, amid ongoing concerns over slow growth, geopolitical tensions (including in Transnistria), and still-divided public opinion over Moldova's future direction.

3. **While quantitative performance has been strong, reforms under the Fund program have been delayed.** Governance-related structural benchmarks (SBs)—establishing an anti-corruption court (ACC) and providing more autonomy to the Anti-Corruption Prosecutor's Office (APO)—are delayed, reflecting the complexity of the reforms and difficult political environment in the election period. The SB to strengthen NBM governance is elevated to prior action (PA) for this review. Most reform measures under the RSF arrangement for this review are delayed, reflecting complexity and the need for coordination among stakeholders.

RECENT DEVELOPMENTS

4. **Activity is showing a pick-up in 2024 with stronger private consumption and investment.** After a weak recovery in 2023 (+0.7 percent), growth accelerated to 2.2 percent y-o-y in 2024H1 and is projected to reach 2.6 percent in 2024, supported by a gradual recovery of investment and private consumption due to rising real wages and strong consumer credit growth. Net exports have had a negative contribution, reflecting a lower harvest and agricultural prices, lower net re-exports (to Ukraine), and strong import demand. Unemployment stood at 3.9 percent in 2024Q2.

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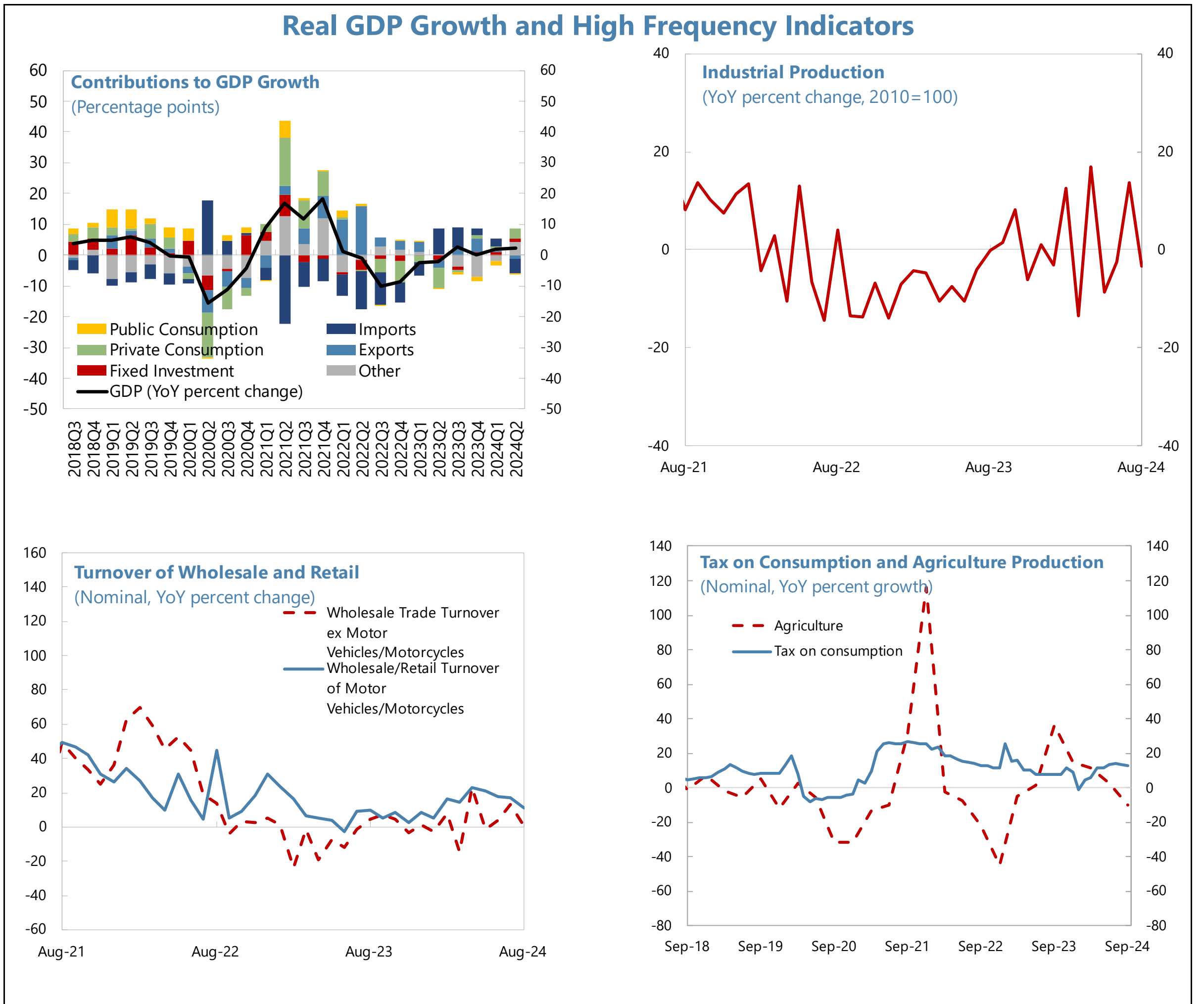
[1] See Adopted Negotiating Framework.

[2] The Growth Plan was adopted by the Commission and is pending European Parliament and Council approval. Of €1.8 billion (10.7 percent of 2024 GDP) to be disbursed over 2025–27, €400 million are expected to be grants and the rest concessional loans with long maturities. Disbursements will be linked to completion of reforms, including linked to the EU accession process. Reform areas include competitiveness, economic resilience, economic governance, social capital, green transition, and public administration and rule of law.



Sources: NBS, NBM, and IMF staff calculations.

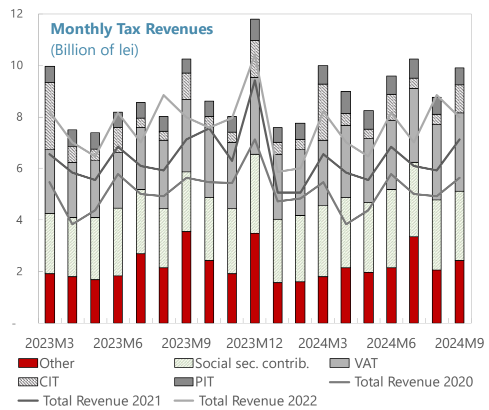
5. **The fiscal deficit for 2024 has been revised down to 4.4 percent of GDP,** from 5 percent in the last review and 5.2 percent in 2023. The authorities prepared a second supplementary budget in November to reflect stronger-than-expected revenues, driven by buoyant wage and import (tobacco and vehicles) growth that is expected to last into 2025.[3] Notwithstanding the elections and referendum, total spending has been kept largely unchanged in the supplementary budget, with a reallocation to reflect some under-execution of capital spending, and increased current spending for the Health and Road Funds and for wage payments. This covers mandatory payments from social assistance reforms and a reduction of the stock of paid-leave entitlements.

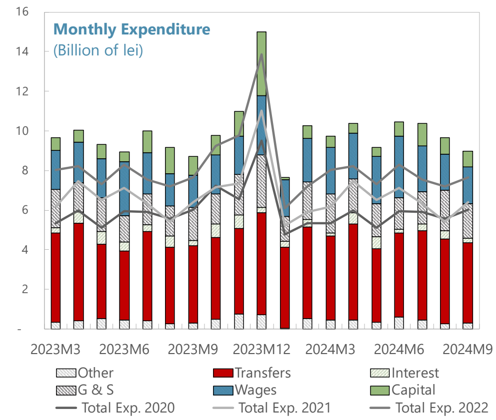
6. **Public debt remains sustainable, and the overall risk of debt distress is assessed as moderate, unchanged from the last DSA** (Annex III). Financing (donor support, T-bills) has been broadly in line with expectations, with disbursement of the last tranche of EU MFA financing now expected in early 2025 rather than 2024Q4. While the primary deficit increases public debt slightly in

[3] Vehicles imports will become subject to VAT in 2026, likely supporting current demand.

2024, the interest rate-growth differential driven by continued concessional external borrowing, lower domestic borrowing costs, and favorable exchange rate dynamics helps limit this rise.

Monthly Tax Revenues and Expenditures, 2023–2024

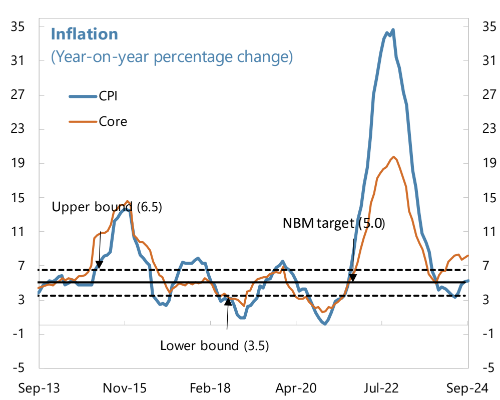


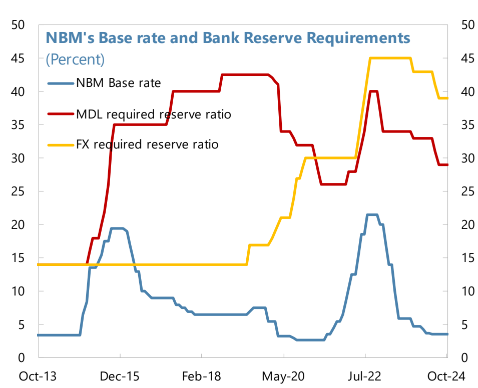


Source: Ministry of Finance.

7. Inflation has remained broadly within the National Bank (NBM)'s 5 ± 1.5 percent target corridor since October 2023. Headline inflation declined in 2024H1 with lower food and regulated prices, reaching the lower bound of the NBM's target corridor in April, but picked up to 5.3 percent y-o-y in October driven by rising food prices. Annual inflation is now projected at 4.6 percent in 2024, in line with the NBM's latest projection, down from 5 percent projected in the last review. Core inflation, while above headline at 8.2 percent in September, is in line with projections and shows signs of slowing. The NBM has kept the policy rate at 3.6 percent since May and has gradually lowered MDL and FX reserve requirements to still-high 27 and 36 percent, respectively, since May. Between January-September, the leu moved with the euro but depreciated by 2 percent in October. Gross reserves remain strong at $5.7 billion (6+ months of imports at end-September). FX market interventions resumed at end-October and intensified in the aftermath of the US presidential elections as the leu depreciated against the US dollar alongside the euro.

Inflation and Monetary Policy Conditions



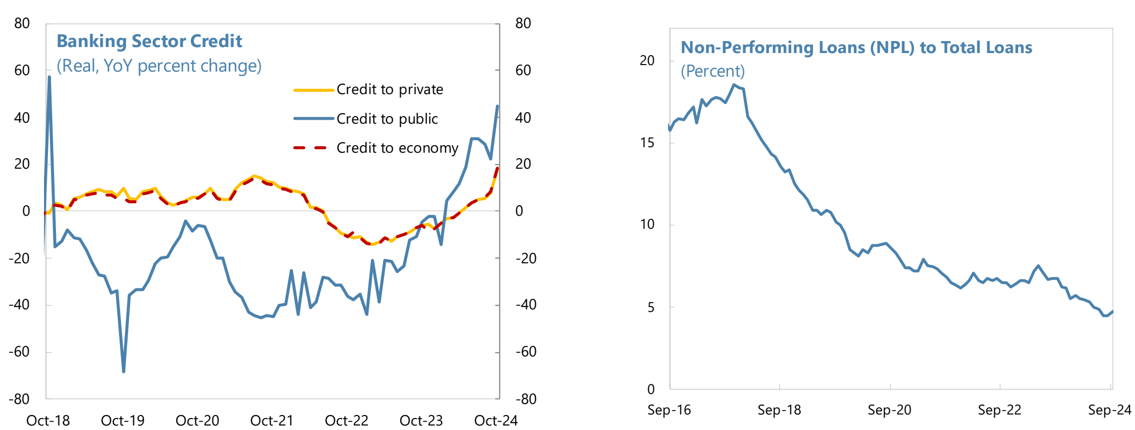


Sources: NBS, NBM, and IMF staff calculations.

8. The external current account (CA) worsened in 2024H1. The CA deficit widened to 14.3 percent of GDP in 2024H1 from 11.9 percent in 2023, reflecting lower re-exports to Ukraine and exports of locally-produced goods, vegetables, and oils. Import growth is expected to stay flat, with the drop in re-export activity more than compensated by strong demand for other imports. Remittances declined by 20 percent y-o-y in 2024H1. Net FDI inflows receded by almost half in 2024H1 due to a decline in reinvestment of earnings and net liabilities, while currency and deposits bolstered the financial account.[4] Staff assess the external position at end-2023 to have been weaker than the level implied by medium-term fundamentals and desirable policies (Annex II).

9. The financial sector remains sound amid an expansion of credit in local currency and a rapid increase in real estate prices. Banks' total claims on the private sector increased by about 15 percent y-o-y through August, while loans of non-banks (non-bank credit organizations, NBCOs, and savings and loans associations, SLAs) increased by 3.5 percent through 2024Q2. Lending activity was mostly driven by a rebound in domestic demand—supported by lower interest rates and inflation—and a slight easing of bank lending standards. Large capital and liquidity buffers meant that banks could easily accommodate the increased demand for loans, despite the still high MDL and FX reserve requirements. Dollarization of loans has declined, as banks increased MDL lending. Continuing last year's trend, banks expanded loans mostly for retail and mortgages; this, combined with supply-side factors has led to a rapid increase in real estate prices (+16.6 percent in the first two quarters of 2024). The insurance sector shows adequate capitalization and liquidity and improving profitability.

Banking Sector Credit and NPLs



10. Progress is ongoing to enhance energy security by diversifying sources and integrating with European systems. A key recent development is the construction of the Vulcănești-Chișinău 400 kV Overhead Power Line, which began in March 2024; the line is 30 percent completed and expected to be delivered in 2025. Moldova has further diversified energy imports by tapping into

[4] The increase in net flows in the form of currency and deposits explains the increase in the identified financing sources in Table 7.

gas from several sources, including Greek liquid natural gas terminals and stored gas from Ukraine. Renewable energy efforts are also underway, with a tender launched in August 2024 to develop wind and solar projects, collectively aiming to enhance energy resilience. The Energy Vulnerability Relief Fund (EVRF) has been essential in protecting vulnerable households from energy price spikes, and is transitioning to targeted cash transfers. Challenges remain, particularly concerning electricity dependence on the MGRES supplier in Transnistria.

OUTLOOK AND RISKS

11. Gradual recovery is expected to continue. Growth was revised down to 3.0 percent for 2025, from 3.7 percent in the Fifth Review, reflecting lower consumption and investment and weaker net export projections. The baseline inflation forecast for 2025 remains unchanged at 5 percent, as lower inflationary pressure from core and fuel prices is offset by higher projected electricity prices. The CA deficit is expected to increase to 14.9 percent of GDP in 2024 due to reduced exports of goods and transfers but decline to 12.9 percent in 2025 with stronger services and income balances. The baseline projections assume a 20 percent increase in electricity prices following expiration of the Ukraine-Gazprom gas transit agreement at end-2024 and do not incorporate the recently-announced EU Growth Plan worth €1.8 billion, to be disbursed over 2025–27.

12. Risks to the outlook are large and tilted to the downside (Annex I). The war in Ukraine continues to pose significant uncertainty and risks (Transnistria, refugees, exchange rate). New energy shocks related to the expiration of the Ukraine-Gazprom agreement could weaken Moldova's economic outlook, creating fiscal and balance of payments pressures, and strain households. Political tensions linked to the upcoming parliamentary elections could slow reforms and EU accession momentum, and weigh on external support. Insufficient progress on anticorruption and governance reforms would undermine the business environment and growth prospects. Extreme weather events pose significant risks to the energy and agricultural sectors. By contrast, faster-than-expected growth in trade partners, faster progress on structural reforms, including immediately after the presidential elections and under the EU Growth Plan, and steady path towards the EU accession represent upside risks.

PROGRAM PERFORMANCE

13. Performance is mixed, with good quantitative performance but only two out of six structural benchmarks planned for this review met:

- **End-June 2024 quantitative performance criteria (QPCs)** were met. All QPCs, continuous PCs, and June 2024 ITs were met, except the wage bill IT ceiling, which was missed by a small margin due to unexpected payments from the reorganization of assistance programs, new regulations that limit carryover of unused leave, and bonus payments.[5] End-June inflation was within the inner consultation band.

- **End-September 2024 indicative target (ITs)** were met.

- **Structural conditionality:** SBs on the National Financial Inclusion Strategy Committee (end-June SB) and Pillars II and III of Solvency II (end-September SB) were met. Legal amendments to strengthen NBM governance (end-November SB) are expected to be submitted to the Parliament with delay, in December. The SB has been elevated to a PA for this review. The September SB to develop for all central government SOEs: (i) a framework for monitoring financial performance and mitigating fiscal risks; and (ii) a plan to rationalize SOEs in non-strategic sectors or loss making was implemented with delay in November. The draft law for adoption of the anti-corruption adjudication infrastructure is expected to be adopted by Parliament by end-year (end-September SB, request to rephase to end-December). The SB on operational independence of APO (end-November 2024 SB) was not met, since the authorities deem that allowing the APO to participate in the selection of its own prosecutors would be open to constitutional challenges. They also found that granting APO powers to hire its own investigators presented several risks and legal implications, including legal ambiguity on the separation of powers between prosecutors and investigators who are hired directly. The authorities have requested the benchmark to be replaced with a new, modified SB, aiming to achieve important steps towards the same objective (new end-March 2025 SB).

- **RSF reform measures (RMs) are progressing, albeit slowly.** Reform of energy support (RM5) was adopted ahead of the heating season at end-November. Work on other RMs has advanced but was not finalized in time for this review and will be assessed at the next review. The authorities are still working on assigning coordination and other disaster-risk management (DRM) roles—needed to complete the framework (RM2), and on energy cost-recovery analysis (RM4). Climate-change impact and vulnerability assessments in project appraisal and selection by the MoF (RM7) still requires development of a methodology for such assessments to be completed.

POLICY DISCUSSIONS

The ECF/EFF continues to support policies aimed at ensuring macroeconomic and financial stability, strengthening governance, and building strong institutions. The RSF arrangement is bolstering resilience against climate shocks, including through energy sector reforms, boosting disaster risk management, increased climate investment and improved financial sector readiness, and promoting sustainable finance. The program runs until end-2025, providing continuity through parliamentary elections in 2025Q3.

[5] The shocks increasing the wage bill above target are not anticipated to persist.

A. Fiscal Policy and Energy

14. Fiscal consolidation and improved capital spending remain key priorities to rebuild buffers and unlock growth potential. Given high uncertainty, including on energy prices and on potential additional spending needs, and prospects of substantial, debt-financed capital spending catalyzed by the new EU Growth Plan, staff advised continued consolidation through contained current spending in 2025. The draft 2025 budget targets a deficit of 4 percent of GDP:

- **Expenditures.** The 2025 budget foresees a moderate reduction in total spending in percent of GDP and rebalancing toward growth-enhancing investments. The capital spending allocation increases by 11.7 percent relative to 2024, accounting for anticipated improvements in the implementation of investment projects. Current spending increases by 7 percent, reflecting law-mandated pension increases, moderate wage increases in education and health, higher minimum salaries and basic reference values, and partial drawdown of accumulated paid-leave entitlements. The budget includes a contingency buffer of MDL 600 million (0.17 percent of GDP) to account for the risk of electricity price increases (Box 1), with authorities' commitment to use it for earmarked purposes and proportionately with electricity price increases (MEFP ¶11).

- **Revenues.** The revenue effect of tax changes in 2025—including an increase in the basic allowance of the individual income tax to compensate inflationary effects, the introduction of new allowances for education and insurance expenses, which will benefit high-income households to a larger degree, and increases in excise taxation to move towards EU levels—will be slightly negative. However, the revenue shortfall is expected to be offset by higher revenues from social security and personal income tax collections resulting from public sector salary increases. The revenue-to-GDP ratio will thus remain unchanged in 2025, leading to an overall decrease in the deficit.

15. The targeted deficit is slightly larger than what was anticipated at the time of the Fifth Review. The mild adjustment is warranted against the background of overperformance this year, afforded by stronger-than-expected revenue outturns, and the anticipation of slightly reduced growth in the future. However, unless risks materialize, further loosening should be avoided in 2025, an election year.

16. The energy sector continues to pose significant risks. Since 2022, Moldova has relied on non-Russian gas sources. However, the main source of electricity remains the MGRES power station in Transnistria, which runs on Russian gas. The end-2024 expiration of a gas transit agreement between Ukraine and Gazprom has potential to significantly increase electricity prices, and gas and electricity costs for households and businesses in Transnistria, with socio-economic consequences (Box 1). The authorities are considering a range of scenarios, with increases in electricity prices of up to 100 percent; staff projects a baseline 20 percent increase in electricity prices. The EVRF (RM5) serves as the primary tool to shield the most vulnerable from energy price surges, now with cash transfers delinked from energy consumption. With uncertainty around the extent of possible price increases, an earmarked 0.17 percent of GDP buffer was included in the budget, to be used for additional support to households and to cover extra costs in government buildings (MEFP ¶11) accounting for increases in electricity prices up to 50 percent. In case of greater shocks, the authorities would seek grants and concessional loans from partners. Beyond 2025, fiscal costs are likely to be elevated—until the economy adjusts—due to reduced reliance on cheaper electricity from MGRES and potential budget gaps in Transnistria (Box 1).

Box 1. Moldova: Expiration of the Ukraine-Gazprom Agreement

Background. A five-year gas transit agreement between Ukraine and Gazprom is set to expire at end-2024, with no clear indications of renewal. Despite ongoing efforts to diversify energy sources—improving connections with Romania, securing additional contracts—"right-bank" Moldova remains dependent (70-80 percent) on electricity produced in "left-bank" Transnistria using Russian gas.

Baseline. In the absence of other electricity supply contracts, the baseline assumes continuation of gas supplies through Ukraine for the left-bank and for generating electricity used in the left- and right-banks, but at increased transit costs. Moldovagaz would cover the additional transport costs, resulting in a 20 percent increase in electricity prices. Gas supply for the right-bank would not be affected, as it has not relied on Russian gas since 2022.

Downside. If Russian gas to MGRES ceases entirely, Moldova faces two potential scenarios. One is securing gas from alternative sources for MGRES. Another, more likely scenario, is purchasing electricity from European markets, which could raise end-user electricity prices by 50 percent, well above the baseline.

Implications. Staff estimates that an additional 30 percent increase in electricity prices would increase inflation by approximately 1.3 percentage points annually, considering direct and indirect effects. Output would decrease by approximately 0.3 percentage points annually compared to baseline. Given the limited impact on inflation and the planned energy support for households via EVRF, private demand is not expected to be severely impacted. Corporates would partially pass the increase in costs onto consumers, while absorbing the rest by lowering margins and investment and suppressing hiring. Further, imports would increase by about €360 million if all power currently produced by MGRES is substituted by imports from EU markets. This could widen the CA deficit by about 2.2 percent of GDP and could lead to additional demand for foreign exchange and pressure on the exchange rate. The additional 30 percent increase in electricity prices would increase public sector expenditures by 0.12 percent of GDP to accommodate higher electricity costs for state entities and higher support to households through the EVRF. This amount is included in the earmarked buffer in the budget of 0.17 percent of GDP, covering costs of electricity price increases up to 50 percent compared to December 2024, to be spent proportionally with the electricity price increases.

Transnistria. There are significant risks for Transnistria, with two possible sub-scenarios:

- *Gas supply limited to the left bank.* In this case, Russia continues supplying gas sufficient only for the left-bank region. While this would allow left-bank households, businesses, and the MGRES plant to maintain operations, MGRES would no longer be able to supply electricity to the right bank. As a result, Transnistria's economy would suffer from the loss of revenue generated through electricity sales to the right bank, creating a budget gap. The government in Tiraspol may manage this shortfall temporarily, but the financial strain could lead Transnistria's residents—most of whom are Moldovan citizens—to seek support from Moldova.
- *Complete gas cut-off to Transnistria*. In the event of a total halt in gas supply, residents of Transnistria would be forced to pay for gas and electricity at market prices, placing pressure on the region's economy. Without affordable energy, Transnistria's economy could come to a standstill, with significant implications for both Transnistria and Moldova. In these circumstances, the authorities would likely seek grants/concessional loans from external partners.

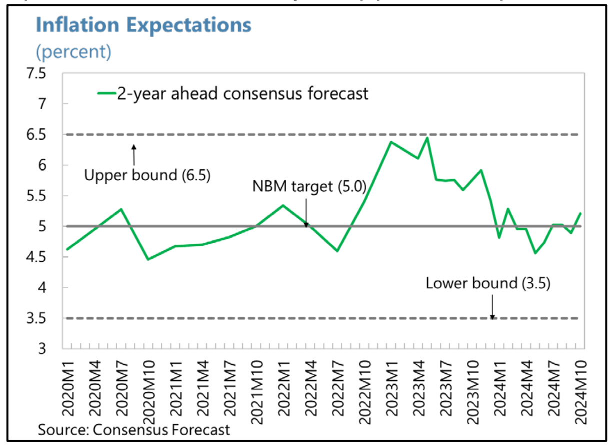
17. Revenue enhancing measures need to be stepped up. The authorities have conducted a comprehensive diagnostic of the Moldova Tax Code with IMF TA support. The findings indicate that both consumption and income-based taxes suffer from gaps that reduce efficiency and fairness. Building on an ongoing, in-depth evaluation of existing tax expenditures (end-December SB), the authorities plan to prepare and approve at Cabinet level draft legislation to eliminate tax expenditures starting in January 2026, including by extending the tax base or revising preferential tax regimes, with the goal of raising at least MDL 900 million (0.2 percent GDP) in additional annual revenue compared to current policy (**new end-September 2025 SB).** Acknowledging the importance of a well-functioning VAT for growth and revenues, the authorities plan to draft and present for public consultation a new Chapter III of the Tax Code, setting out a new VAT framework that is simple, broad-based, and compliant with the EU VAT *acquis* (**new end-September 2025 SB**). Efforts to bolster compliance are expected to further support collection efficiency, with two SBs on tax audit set for 2025 (end-January and end-April 2025; MEFP ¶14).

18. Reigning in wage bill growth while ensuring efficient service delivery will require a comprehensive medium-term civil service reform. As a first step, the authorities will approve a roadmap for a comprehensive medium-term reform to simplify and update the public salary structure. The roadmap will realign functions with positions, reduce the number of reference values, and evaluate fiscal implications of the reform (**new end-June 2025 SB**). With falling replacement ratios and a narrow contribution base, the pension system requires the reform to ensure long-term sustainability.

19. Improvements in public financial management should continue. The 2025–27 medium term budget framework (MTBF), adopted in August 2024, foresees gradual consolidation targeting a deficit of 3.1 percent of GDP in 2027, and keeping the total public debt to GDP ratio below 45 percent by 2027. Strengthening the MTBF will require improvements in budget preparation (setting policy priorities in line with the National Developmental Plan, based on accurate and realistic forecasts, guided by binding budget ceilings) and execution (including through expanding controls of multi-annual project plans, strengthening contingency reserves, and reducing reliance on supplementary budgets). Moreover, budget preparation should build on a joint analysis of revenue and spending needs. In light of significant upcoming financial support under the EU Growth Plan, it is key to improve public project investment management and implementation, including by developing a registry of investment projects approved for implementation by the State budget, externally funded projects, and developmental funds. With the help of IMF TA, the authorities are working on expanding coverage and addressing misclassifications in the fiscal accounts, particularly regarding the wage bill and capital expenditures, with the aim to present fiscal accounts for 2023 in the GFSM2014 format (end-April SB 2025).

B. Monetary and Exchange Rate Policies

20. Careful calibration of monetary policy decisions remains critical. The NBM revised its annual inflation rate forecast down by 0.2 ppts to 4.6 percent in 2024 and by 0.4 ppts to 4.9 percent in 2025, due to lower-than-anticipated regulated and fuel prices. Medium-term inflation expectations remain within the NBM target band. The NBM has kept its policy rate unchanged since May, expecting conditions to further ease after reserve requirements cuts. With inflation expected to stay well within the target range, staff recommended keeping the base rate at its current level, while further lowering reserve requirements. Progressive lowering of reserve requirements towards the pre-crisis levels is expected to support transmission of monetary policy. With a negative output gap, the overall stance of monetary policy remains accommodative, but vigilance is needed as upside risks to inflation from energy shocks increased, and real estate prices rose rapidly. Maintaining ER flexibility, while preserving sufficient FX buffers, will be critical to cope with new or prolonged shocks.



21. Safeguarding NBM independence is critical to reinforce credibility, strengthen policy effectiveness, and achieve program objectives. Central bank independence and a strong governance framework are cornerstones of effective implementation of appropriate monetary and prudential policies. Recommendations of an assessment in March of the NBM's legal, governance, and operational frameworks by the IMF staff have guided preparation of legislative amendments to strengthen the NBM's institutional set-up (end-November SB). These include strengthening appointment and dismissal procedures, the latter by introducing a double veto and explicit procedural (including due process) requirements, and reforming NBM governance and decision-making structures, especially qualifications, membership, and tenure. TA support through a short-term expert may be considered once the amendments are adopted and would include addressing the recommendations of the Autonomy and Governance of the National Bank of Moldova Report and the Central Bank Transparency Code Review. An MoU delineating responsibilities among institutions involved in asset recovery from the 2014–15 bank fraud (end-June 2024 MEFP commitment) was signed in September. A governance workshop was delivered by IMF MCM to the NBM in September and a Central Bank Transparency Code review mission was completed in November 2024, with follow up actions to be incorporated into subsequent program reviews.

C. Financial Sector Policies

22. Moldova's well capitalized and liquid banking sector has supported credit growth, which is expected to continue in 2025. As of end-August, regulatory capital-to-risk weighted assets was 27 percent, slightly down from 30 percent at the beginning of the year, mostly because of increases in lending activity. Liquidity buffers remain high, with LCRs hovering around 290 percent—well above the 100 percent regulatory minimum. Non-performing loans (NPLs) as a share of total loans have declined by 1.1 ppts since the beginning of the year, reaching 4.5 percent in August. Profitability remains strong—with ROE at 15 percent and ROA at 2.4 percent—upheld by lower impairments and provisions. Credit growth has been robust, with new lending mostly concentrated in retail and mortgage, while credit to corporates remained weak despite a larger decline in lending rates. To support lending, the NBM has introduced a reference rate for flexible rate loans, expected to somewhat strengthen the pass-through of policy rates.

23. Non-bank credit institutions continue to support the economy, and the insurance sector remains liquid and profitable. Lending by NBCOs continues to grow, albeit at a slightly lower pace than last year, and concentrated in the retail sector. NPLs remain stable at around 12 percent, and funding concentrated in own equity (35 percent) and loans from non-residents (33 percent). Lending from SLAs continued to decline slightly. Insurance sector solvency ratios continued to be above 100 percent (153 and 640 percent for non-life and life insurance, respectively).

24. Despite uncertainties and risks, stress tests show that the banking system is well equipped to withstand adverse shocks. A rapid deterioration in the macroeconomic outlook, with lower growth, a weaker exchange rate, higher inflation and interest rates, and liquidity pressures are major sources of vulnerabilities. However, results from both top-down and bottom-up stress tests show that the high levels of capitalization and liquidity provide buffers against solvency and liquidity risks. In particular, a bottom-up stress test conducted jointly by the NBM and banks in 2024H2 showed that under a scenario of a large drop in exports, remittances, and investments, and a sharp increase in inflation, only one non-systemic bank would have capital levels below regulatory minima over a two-year horizon.

25. Macro-prudential policies remain appropriate, although pockets of risks might be emerging. The calibration of the LTV ratio remains appropriate, while the authorities' analysis shows room for a mild relaxation of the DSTI ratio from 40 to 50 percent. The recent increase in house prices—concentrated in the capital city—is mostly driven by a combination of higher demand—fueled by pent-up demand and lower interest rates—and supply bottlenecks, namely increases in prices of construction material, difficulty obtaining construction permits, and higher limits on cash transactions. A recently-approved government program supporting first-time homeowners ("Prima Casa Plus") is expected to create further price pressure. The program is generous, featuring a government guarantee of up to 65 percent to banks and relaxed LTV and DSTI limits (100 and 55 percent, respectively). While bank exposures to mortgages, NPLs on mortgages (1.7 percent), and household indebtedness are low, the combination of accommodative monetary policy, incentives schemes, and supply bottlenecks could generate overvaluation in the market. The team has urged the authorities to remain vigilant by closely monitoring developments and to address supply bottlenecks, while keeping subsidy programs contained.

26. Reforms in the non-bank financial sector are underway. Effective July, the NBM adopted improved reporting requirements to strengthen NBCO supervision. The authorities are considering introducing enhanced reporting requirements also for SLAs, possibly by end-2026, and including them under consumer protection regulations. For insurance, the remaining secondary legislation to introduce Pillar II and III of Solvency II was approved in September (end-September SB, met) and preparation for introduction of Pillar I is ongoing. To this end, the NBM is carrying out a balance sheets review and is preparing legislation for transposing Pillar I, with the goal to adopt it in 2026, with the entry into force dependent on the review results.

27. Risk assessment and safety nets are being improved. NBM has continued to upgrade the systemic risk assessment framework by introducing sectoral dashboards for systemic risk monitoring and LCR- and cash-flow based liquidity stress tests (the latter to be rolled out in the 2025 financial stability report). It has also started working on a stress-testing framework for NBCOs. To further strengthen safety nets, the authorities plan to adopt secondary legislation to operationalize the implementation of bridge bank and bail-in tools (by end-2025 and end-2026, respectively) and draft an action plan to insure deposits of SLAs by end-2025. A draft law incorporating MCM's advice on strengthening the resolution framework was submitted to Parliament in September and should be voted by end-year; legal amendments to the liquidation framework have been prepared and will be sent for public consultation. Updated ELA regulations that introduce Fund TA recommendations will be approved by mid-2025, with the aim of conducting a granular simulation exercise by end-2025 and thereafter resuming discussions to introduce government guarantees for ELA.

28. There is an active agenda to improve financial inclusion. To facilitate cashless/cheaper payments, the NBM has extended the recently-introduced instant payment scheme ("MIA") to cover payments to businesses and plans to extend it further to cover business-to-person and person-to-government transactions by end-2024. The authorities are also updating legislation to launch a PSD2-based open banking system by February 2025. They have set up an interagency committee (end-June SB) with the mandate to develop, implement, and monitor the National Financial Inclusion Strategy (NFIS). The diagnostic phase was conducted with the support of the World Bank, and a diagnostic report and action plan should be ready by end-2024/January 2025.

29. The current tight financial supervisory and regulatory framework should be preserved and the AML/CFT regime strengthened given risks, including from illicit flows. In light of current and prospective risks, staff advised against relaxing the tight thresholds for disclosure and NBM authorization on bank share purchases. Staff expressed concerns regarding recent amendments to the central securities depository (CSD) and NBM laws allowing the NBM-owned CSD to invest in the Moldovan Stock Exchange in partnership with the Bucharest Stock Exchange (BVB) and other private intermediaries, and asked the authorities to revoke the amendments. Staff argued against involving the NBM in activities not in line with its mandate and in likely violation of EU law. The authorities continue to analyze options to develop capital markets and have elaborated a two-year strategy to improve the regulatory and operational framework of the CSD to align with international standards. They plan to promote international links with other CSDs and move away from the existing individual segregation model towards an omnibus segregation model. While these changes could facilitate access to foreign capital, they would also entail risks, especially if timely access to information about beneficial owners is not guaranteed. To minimize risks under the new

CSD framework, good governance, brokers, and exchanges regulation and supervision, and cross-border regulatory cooperation would be essential. The NCFM is finalizing the national strategy for capital markets development and aims to complete it by end-2024. Finally, efforts to prevent illicit financial flows are ongoing: the authorities should improve information exchange and cooperation across relevant agencies, and adopt a risk-based AML supervision methodology.

30. Following the authorities' request, an IMF FSAP will be delivered in 2025. The last FSAP took place in 2014, with an FSSR in 2021. The FSAP will be an excellent opportunity to gauge progress and provide advice on next steps.

D. Structural Policies

31. The Anti-Corruption Prosecutor's Office (APO) is understaffed, undermining its operations. Despite steps to strengthen APO (separate budgetary code, allotment for staffing increase), APO still lacks prosecutors, investigators, and other staff, and separate, functional premises (end-June 2024 MEFP commitment). APO is not allowed by law to recruit its own prosecutors and investigators, and must rely on recruitment through the Supreme Council of Prosecutors (SCP) and secondment from other agencies, respectively. Staffing challenges have been compounded by mass resignation of prosecutors who declined to participate in vetting.

32. The authorities have requested to reformulate the SB on APO operational independence (end-November SB). After a review, their position is that allowing APO to have a role in the transfer or promotion of prosecutors to APO, even in an advisory role, would be found to be unconstitutional. They also request to revisit the requirement to allow APO to hire its own investigators instead of seconding them, as per the current process, due to potential legal and operational risks. The authorities have therefore requested to replace the end-November SB with a new SB, achieving important steps towards the same objective, committing to (i) amend the SCP regulations to require APO's written opinion on shortlisted prosecutors prior to transfer or promotion to APO; and (ii) ensure that APO will be sufficiently staffed with at least 70 percent of prosecutor positions and 70 percent of investigator (including case officers) positions filled (**new end-March 2025 SB**). The authorities will provide premises to APO in December 2024 (MEFP ¶33).

33. Strengthening rule of law requires judiciary reforms, prioritizing adjudication of corruption cases through establishment of the Anti-Corruption Court (ACC). The law to establish ACC, including a strengthened judge selection process and a jurisdiction that will allow it to be focused and not overburdened, has not yet been scheduled for a second reading in Parliament and appears unlikely to be adopted in time for this review (reset end-September SB). The authorities are requesting to reset the SB to end-December 2024.

34. SOE reform momentum should continue. Following the authorities' adoption of the state-ownership strategy and methodology to classify central government-owned SOEs into five categories, triage of SOEs was completed at end-2023. The authorities further developed a framework for monitoring financial performance and mitigating fiscal risks and presented a plan for rationalization of non-strategic or loss-making SOEs (end–September SB, implemented with delay). Identification and reporting on SOE-related fiscal risks have been included in a fiscal risk statement (FRS) published as an addendum to budget documents since 2018; coverage and analysis have been expanded. The authorities committed to improve the framework on SOE fiscal risk mitigation by (i) establishing regular conduct of SOE stress testing and, use of other SOE financial performance assessment tools, and (ii) defining enhanced processes to inform decision making, with the help of Fund TA (**new end-May 2025 SB**). The authorities plan to expand FRS coverage to include climate-hazard risks (RM9).

E. Climate Policies

35. Only one (EVRF reform) of four RMs due to be implemented for this review has been met. The remaining ones are delayed and expected to be finalized by the Third Review under the RSF arrangement due to their complexity and need for considerable coordination among government agencies.

- **Disaster Risk Management (DRM).** The Ministry of Environment is setting up the full DRM management cycle (**RM2**) following the Sendai Framework, adding rehabilitation and recovery together with prevention and mitigation to existing preparedness and response capabilities. The authorities are expected to assign the role for DRM coordination and strategic planning to a responsible institution, which would complete this RM, by next review.

- **Energy Sector.**

    - **Energy cost-recovery rates (RM4).** The authorities have started preparing calculations to determine cost-recovery rates, that include the cost of infrastructure needed to support provision of electricity, including those planned in the Energy Strategy. However, this exercise still needs to be undertaken for gas provision, and, together with next steps under the RM to assess discrepancies between tariffs and cost-recovery prices and associated distributional impacts, will require more time.

    - **EVRF reform (RM5).** The authorities have adopted regulations in November 2024, ahead of the winter 2024-25 heating season, to replace previously untargeted in-tariff subsidies, which did not provide adequate incentives to save energy, with targeted cash transfers to households. The transfers will be delinked from current energy consumption and progressive, with poorer households benefitting more.

- **Fiscal Management.** To meet **RM7**, MoF included climate-change impact and vulnerability assessments in line with C-PIMA recommendations in the legislation guiding project appraisal at end-July. The authorities are still working on developing related methodologies to implement the legislation and inform project selection.

36. Preparations are ongoing for RMs for the next Third RSF Review:

- **RM6:** Based on results of ongoing pilot projects testing smart meters, the Ministry of Energy will conduct a review of tariff differentiation options to help manage electricity demand and supply fluctuations.

- **RM8:** The Ministry of Environment will provide a written opinion of climate implications and vulnerabilities of projects and of the project portfolio to be included in budget submissions.

- **RM9:** MoF will report on climate spending allocations and climate-related spending execution, and include climate risk assessments in the FRS.

Text Table 1. Moldova: Reform Measures for Moldova's RSF

Board Approval December 2023	**First Review** March 2024	**Second Review** October 2024	**Third Review** March 2025	**Fourth Review** September 2025
Reform Area 1: Adaptation and Mitigation Policy, and Disaster Risk Management	**RM1:** Government to: (i) adopt the Law on Climate Action enabling low carbon development and climate change resilience, and (ii) establish a National Commission on Climate Change (NCCC) under the Office of the Prime Minister, as part of the institutional arrangements for managing climate change with clear tasks and responsibilities and procedures (including regular meetings and reports) defined in the supporting government decree.	**RM2:** Government to approve a Disaster Risk Management (DRM) program which (i) covers the full spectrum of the Sendai framework, and (ii) defines an institutional framework with clearly assigned roles and responsibilities at the national and subnational level, including assigning the role for DRM coordination and strategic planning under the Office of the Prime Minister, e.g., to the NCCC. 1/		**RM3:** Government to develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses.
Reform Area 2: Energy Sector Policies		**RM4:** Ministry of Energy to determine the cost-recovery rate for the provision of electricity and natural gas (fully reflecting operational and capital cost), (i) identifying any discrepancy between tariff and so defined cost recovery, considering tax expenditures, (ii) undertake a distributional impact assessment, and (iii) close any gap by adjusting the tariff or by compensating the operating company transparently from the budget. 1/ **RM5:** From the 2024-25 heating season onwards, in coordination with the World Bank and other development partners, and with the view to ensure that the price signals are fully preserved and incentivize efficient consumption: (i) assign the administration of payment provision from energy providers to the Ministry of Labor and Social Protection, and (ii) implement further measures to delink the provision of support under the EVRF from current energy consumption by providing targeted cash transfers to beneficiaries.	**RM6:** Based on the results from the ongoing pilot project collecting information through smart meters, Ministry of Energy to conduct a review for tariff differentiation options (e.g., day-night tariff) as a tool for managing demand fluctuations with the aim of facilitating balancing, also in light of renewable energy onboarding.	
Reform Area 3: Enabling Climate-Smart Infrastructure Investment and Fiscal Management		**RM7:** Government to include climate change impact and vulnerability assessment in the project appraisal (and project selection) methodologies. 1/	**RM8:** Ministry of Environment to review and provide a written opinion of climate implications and climate vulnerabilities of projects and of the project portfolio included in budget submissions. **RM9:** Ministry of Finance to: (i) report on climate spending allocations at the budget stage, (ii) report on climate related spending execution, and (iii) include climate risks assessment in the Fiscal Risks Statement, including for fiscal risk from natural disasters to public and SOE infrastructure.	
Reform Area 4: Sustainable Finance Mobilization and Financial Sector Resilience	**RM10:** Establish an interagency steering committee (including the NBM, MOF, MOEDD, MOE, NCFM, and Moldovan Banks Association) on climate finance. **RM11:** The NBM to develop, adopt, and start implementing a Sustainable Finance Strategy ("Roadmap") and Action Plan for Moldova's financial sector.			**RM12:** The NBM to develop an advanced draft of the Sustainable Finance Taxonomy and start the public consultation process, to approve the taxonomy by December 2025.

1/ Expected to be completed at the time of the Third RSF Review.

Source: IMF Staff.

PROGRAM MODALITIES

37. **Risks to the ECF/EFF and RSF are assessed to be moderate.** The ECF/EFF is expected to be fully financed for the next 12 months, with good prospects for the remainder of the program. Risks are mitigated by strong external support from multiple stakeholders and complementarities of Fund-supported reforms and the EU accession agenda. Expected external financing in 2024 has been revised down by $86 million (0.5 percent of GDP), mostly reflecting delayed disbursement of EU financing, now scheduled for 2025Q1. This amount excludes expected delayed RSF disbursements of $43 million, as these are not used for closing the financing gap but will be used to substitute more expensive other budget financing. Commitments for 2025 budget financing total $257 million, including $70 million from the World Bank and $76 million from the EU.[6] The use of ECF/EFF disbursement for budget financing will support the recovery and increase medium-term policy space. The Fund's share in the financing gap is estimated at around 48 percent and 23 percent in 2024 and 2025, respectively, but could be lower for 2025 with disbursements under the EU Growth Plan—not included in the framework or the draft 2025 budget. Risks to the program stem from materialization of energy shocks, which could require additional support from partners, and political tensions resulting from the parliamentary election that could slow reform momentum. Staff discussed contingency plans should the energy shock or delays in donor support materialize. Further delays in governance reforms and RSF RMs could also present a risk to the program.

38. **Moldova's capacity to repay remains adequate, but subject to significant risks** (Table 8). IMF exposure increases to 5.9 percent of GDP in 2025 before declining, while total debt service to the Fund peaks at 2.5 percent of total exports (41.7 percent of total debt service) in 2024. Moldova has a strong repayment record, with public debt considered sustainable. Risk of external debt distress remains low, while overall risk of debt distress is assessed as moderate. Capacity-to-repay risks remain rooted in the volatile geo-political environment and the possibility of policy reversals related to the upcoming elections.

39. **Proposals for new and modified ECF/EFF conditionality** (MEFP Tables 1 and 2):

- *Quantitative targets.* New quarterly ITs are proposed for end-September 2025. The authorities are requesting modification of the end-2024 ceiling on the cash deficit of the general government, in line with the revised forecast and to reflect higher-than-projected revenues, of MDL 803 million and increase of the end-2024 NIR floor, to build additional buffers. The authorities are also requesting modifications of March ITs and June 2025 cash deficit ceiling, reflecting higher deficit due to the buffer for higher-than-expected electricity prices, and NIR floor and the size of the associated adjustors.

[6] The expected external financing of $633 million has been revised down to $547 million, including due to the delay in EU financing in the amount of $55 million. Around 93 percent of the projected budget support grant financing, totaling $83 million, has been disbursed, while the remaining $5.5 million grants from the EU is expected to be disbursed in 2025Q1. Furthermore, as of October 1, 2024, 60 percent of the revised budget support loans of $202 million (excluding IMF financing) was disbursed.

- *Inflation consultation band targets*. New targets are being proposed for end-September 2025.

- *Structural benchmarks*. Four new SBs are being proposed: (i) draft and present for public consultation legislation setting out a new VAT framework that is simple, broad based, and compliant with the EU acquis (**end-September 2025**), (ii) adopt at Cabinet level draft legislation to eliminate tax expenditures starting in January 2026 (**end-September 2025**), (iii) prepare a roadmap for a medium-term comprehensive salary structure reform that realigns functions with positions, reduces the number of reference values, and evaluates the fiscal implications (**end-June 2025**), and (iv) improve the framework on SOE fiscal risk mitigation by (i) establishing regular conduct of the SOE stress testing and, if applicable, use of other SOE financial performance assessment tools, and (ii) defining enhanced processes to inform decision-making (**end-May 2025**). The missed SB on the adoption of the ACC law is proposed to be reset as a SB for **end-December 2024** to allow for sufficient time for adoption in the Parliament. The end-November 2024 SB on NBM law amendments was not met and has been elevated to a PA for this review. It is expected to be implemented in December. The end-November 2024 SB on adopting legal amendments to grant APO autonomy in hiring of staff was not met, following the authorities' a position that the currently proposed changes would be found unconstitutional. The SB is proposed to be replaced with a new SB, achieving important steps towards the same objective **(end-March 2025).**

- *Reform measures under the RSF arrangement*. The disbursements for the three RMs that have not been completed for the Second Review under the RSF arrangement cannot be executed. RM2, RM4, and RM7 will be assessed at the Third Review.

STAFF APPRAISAL

40. Recovery from multiple shocks is expected to continue. Growth accelerated in 2024 on account of stronger domestic demand and investment. It is expected to improve further in 2025, driven by continued increase in consumption, supported by rising real wages and credit. Inflation remains within NBM's target band, and FX reserves stand at comfortable levels.

41. Elevated energy and geopolitical risks warrant prudent policies and careful contingency planning. Progress increasing energy security by diversifying gas and electricity routes and establishing mechanisms to protect the vulnerable from the energy shocks are welcome. These will provide an important cushion in case of cut-off of Russian gas to Transnistria. Maintaining sufficient fiscal space and reserve buffers will also remain critical to supporting the economy should risks materialize. The start of EU accession negotiations and financing under the EU Growth Plan constitute upside risks through higher capital investment and growth-enhancing reforms.

42. Fiscal policy should be geared toward gradual consolidation to build buffers while protecting the most vulnerable and creating space for capital spending. The authorities should maintain a gradual consolidation path, given the need to create space for potential energy shocks and in light of additional capital spending expected to be financed by the EU Growth Plan. There is scope to improve the budget planning process and better link the revenue and expenditure planning. The new commitments to reform tax expenditures and the VAT are welcome.

43. The NBM's latest decisions to reduce MDL and FX reserve requirements are welcome. These support the transmission of monetary policy and the provision of credit to the economy now that inflation has come down. Given potential energy price shocks and related uncertainty on the inflation trajectory going forward, the base rate should be kept at its current level. Maintaining exchange rate flexibility and preserving sufficient FX buffers remain critical.

44. The financial sector remains sound, although with possible pockets of risk that should be closely monitored and addressed, while reforms progress. Overall, the financial sector is well capitalized and liquid and able to support healthy credit growth while remaining resilient to shocks. Recent real estate developments should be monitored carefully, while addressing supply bottlenecks and containing mortgage subsidy programs. Work to improve monitoring of systemic risk, strengthen safety nets, and promote access to safe and affordable financial services should proceed. Efforts to develop the capital market should ensure that the achievements of banking sector reforms are preserved. Accordingly, the authorities should maintain current prudential requirements on share ownership in the banking sector. The upcoming FSAP will provide an opportunity to take stock of financial sector developments and reforms and inform the agenda going forward.

45. Efforts to strengthen NBM governance and autonomy are welcome. The MoU on bank-fraud asset recovery and the submission to Parliament of NBM law amendments that strengthen approval and dismissal procedures and NBM governance and decision-making structures are important steps. The authorities should strictly refrain from involving the NBM in activities outside of its mandate, including capital market development. These activities should be taken up by other agencies and the private sector.

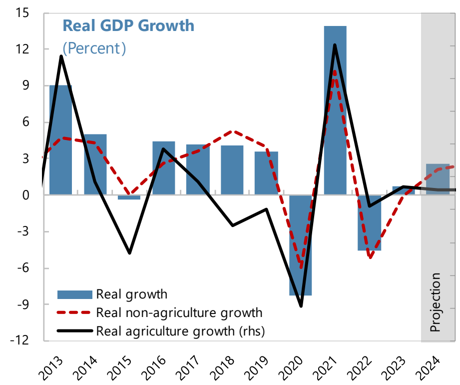
46. Anti-corruption reforms, including approval of legislation on a new ACC, should now advance decisively. The law establishing the new ACC, with a credible selection process for judges and a jurisdiction that will allow it to be focused and not overburdened is overdue and should be adopted as soon as possible. The ACC should be operationalized quickly and effectively. The authorities should also move expeditiously to improve autonomy, staffing, premises, and operations of APO, also overdue.

47. Implementation of RSF RMs should be stepped up. While there has been progress with the switch from in-bill energy support to cash transfers, strengthen efforts are needed to assess energy cost-recovery rates, complete the DRM framework, and develop methodologies for climate change impact and vulnerability assessment in investment project appraisal and selection methodologies.

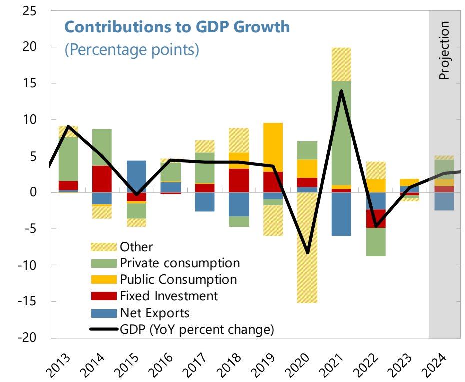
48. Staff supports completion of the Sixth Reviews under the ECF/EFF and the Second Review under the RSF arrangement. Staff also supports (i) modification of the QPCs on cash deficit and NIR, and (ii) the resetting of SB on the adoption of the ACC law, (iii) proposed new SB on APO autonomy in hiring staff to replace the previous SB in this area that was not met given issues with constitutionality and legal and operational risks, and (v) the addition of four new SBs. Policies outlined in the attached Letter of Intent are adequate to achieve the program's goals. Staff supports a disbursement totaling SDR 100.6 million (58.32 percent of quota) under the ECF/EFF and SDR 10.78125 million (6.25 percent of quota) under the RSF, in connection with RSF RM5.

Figure 1. Moldova: Real Sector Developments

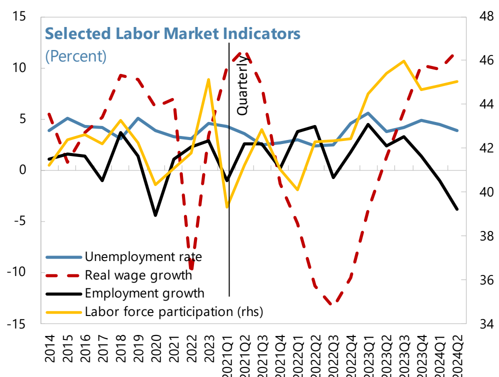
Recovery in 2024 has accelerated…



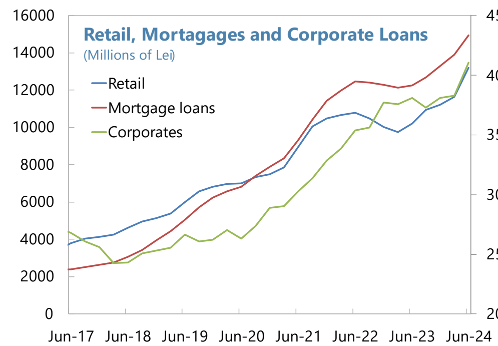
…driven by domestic demand.



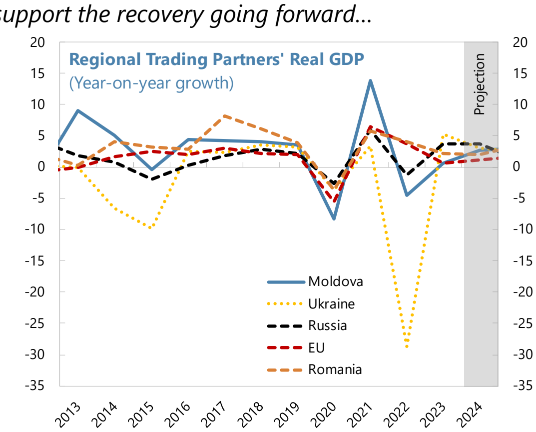
Real wages have recovered, driven by a rapid decline of inflation…



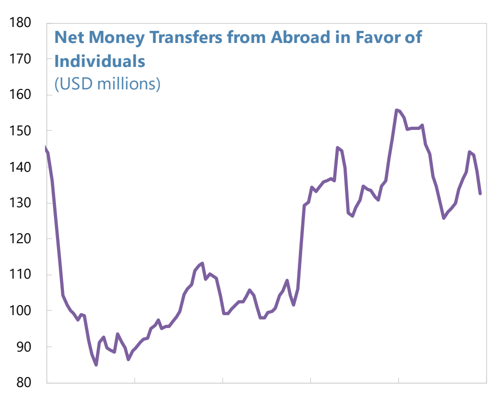
…and contributed, together with increased lending to households and firms, to the recovery in private consumption.



Accelerated recovery in key trade partners would support the recovery going forward…



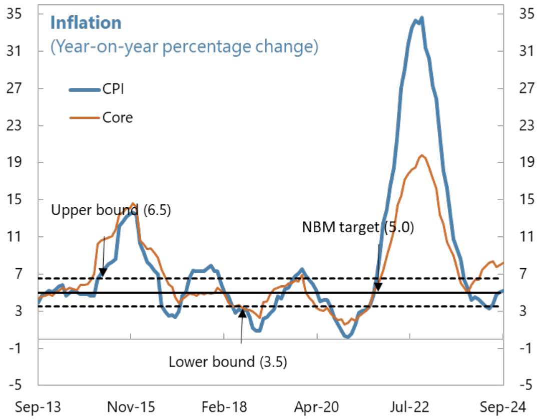
…while FX inflows remain weak.



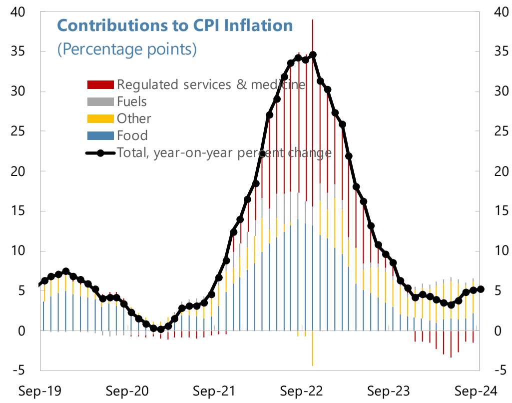
Sources: NBS, NBM, and IMF staff calculations.

Figure 2. Moldova: Monetary Developments

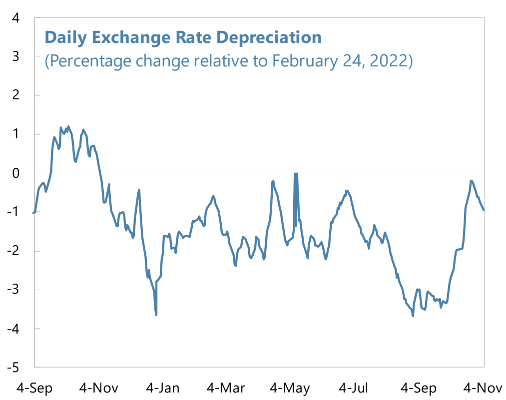
Consumer prices have stabilized and returned to the NBM's target band…



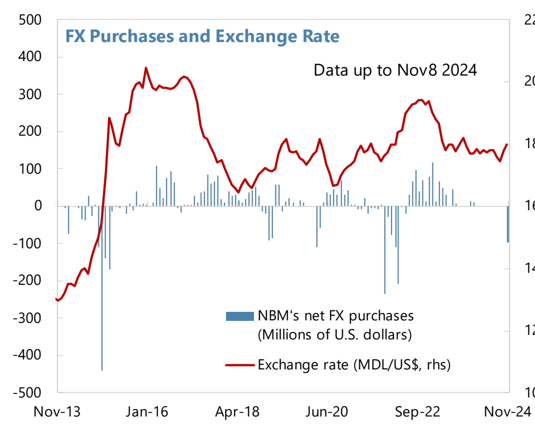
…driven by more moderate food and regulated price developments.



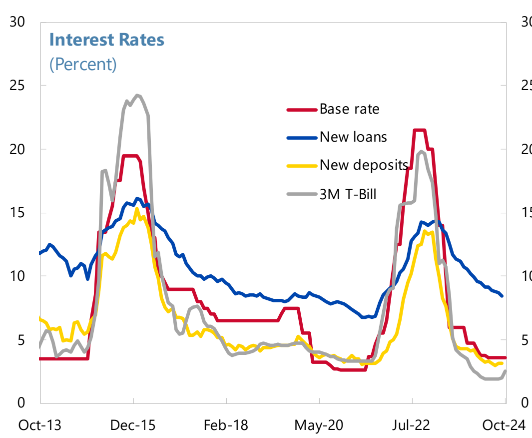
The leu has depreciated by about 4 percent vis-à-vis the U.S. dollar since the start of the year…



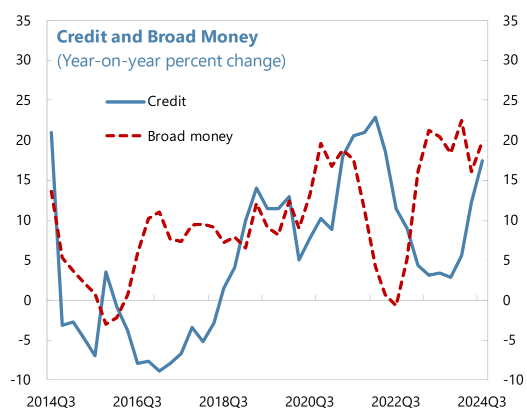
…with only two FX interventions this year so far.



Credit conditions have loosened…



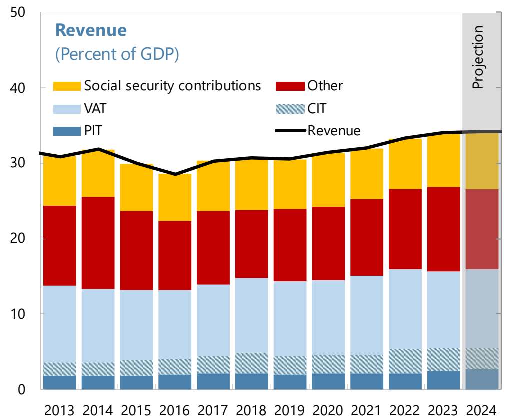
…and lending has increased.



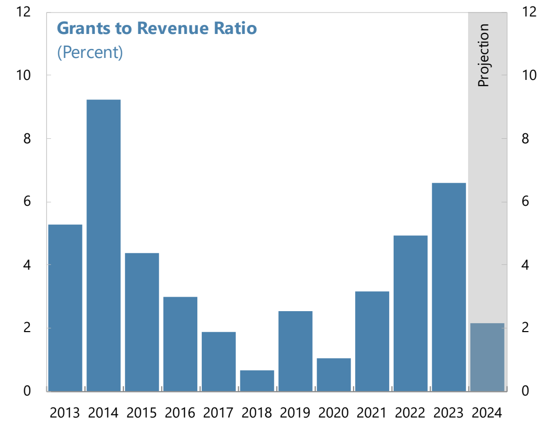
Sources: NBS, NBM, and IMF staff calculations.

Figure 3. Moldova: Fiscal Sector Developments

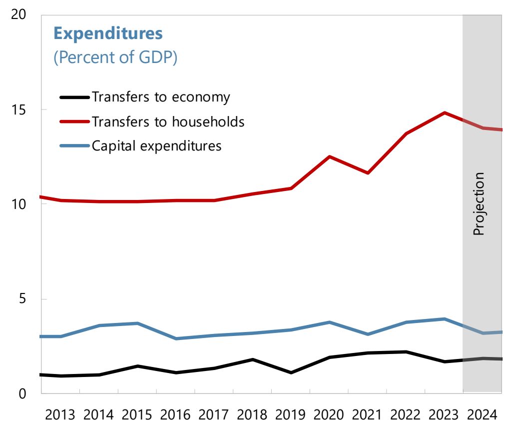
Revenue growth is anticipated to slow…



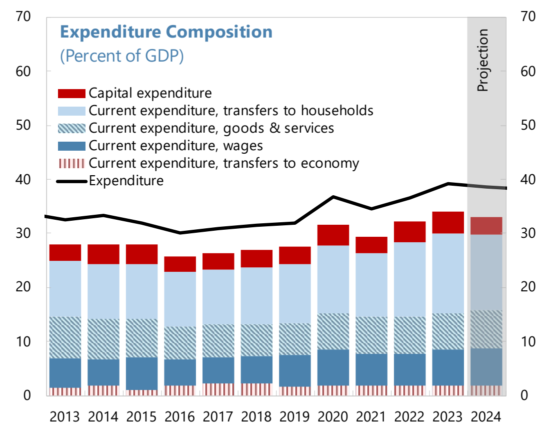
…while external support is expected to be lower.



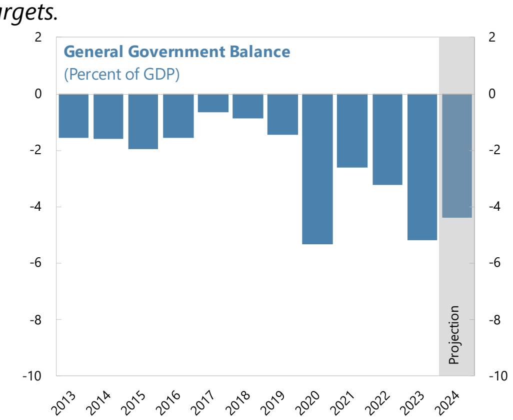
A reduction in household support is necessary…



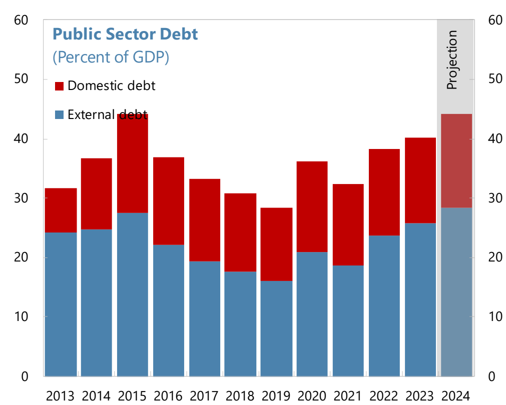
…to contain total spending pressure.



The deficit should decrease in line with program targets.



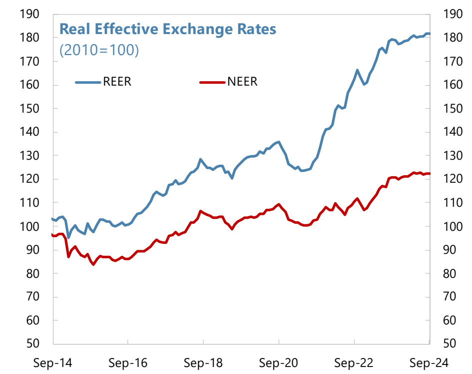
Public debt remains contained.



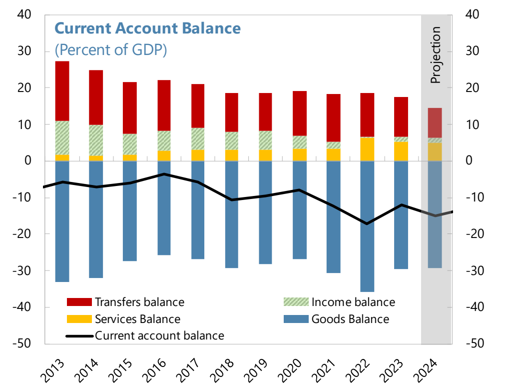
Sources: NBS, NBM, and IMF staff calculations.

Figure 4. Moldova: External Sector Developments

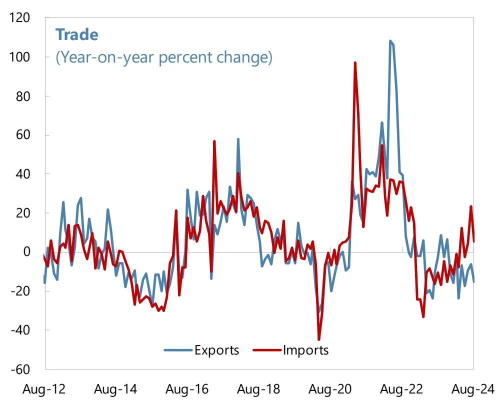
The NEER and REER have recently strengthened.



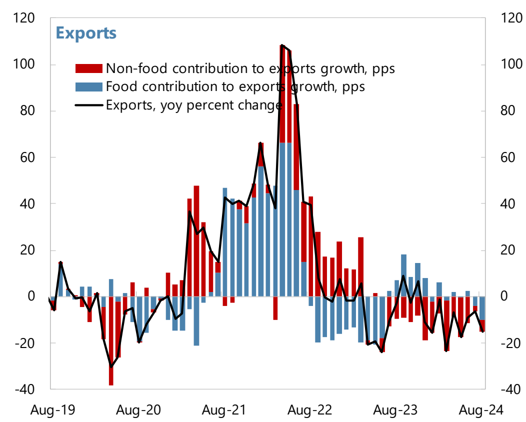
The CA deficit improved in 2023 and 2024Q1.



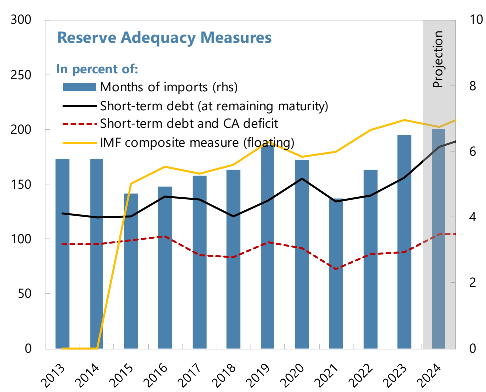
Exports slowed in 2024Q1…



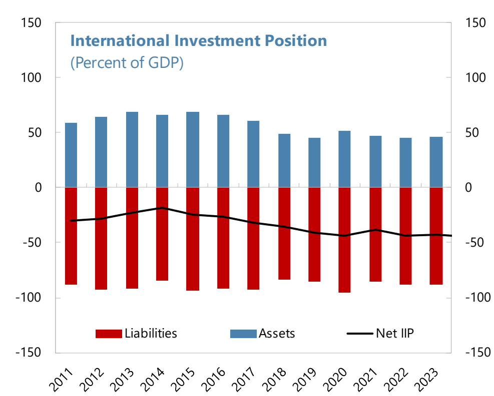
…with a slow recovery in food exports.



Reserve adequacy metrics remain favorable…



…and the net IIP improved in 2023.

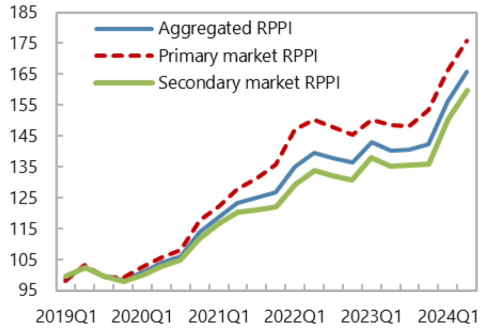


Sources: NBS, NBM, and IMF staff calculations.

Figure 5. Moldova: Real Estate Developments

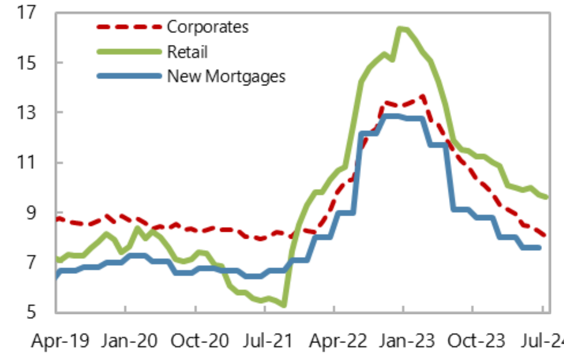
Real estate prices have been increasing rapidly since the end of 2023…

RPPI index related to the Republic of Moldova
(2019 = 100%)



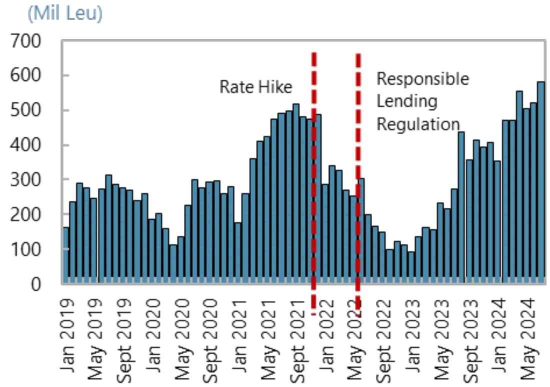
…due to a combination of lower interest rates,…

Interest Rates on New Loans
(Percentage Points)



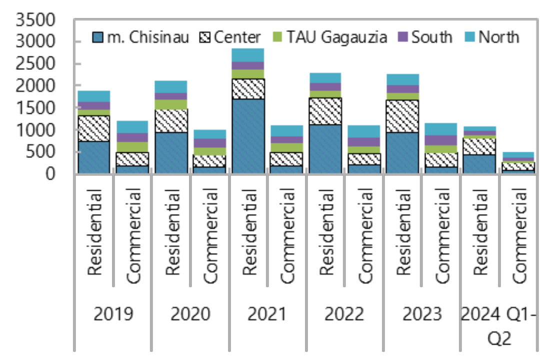
…a recovery in mortgage lending,…

Monhtly Dynamic of New Mortgage Loans
(Mil Leu)



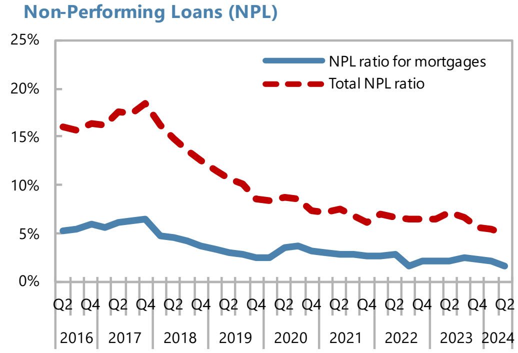
…and supply bottlenecks.

Building Permits



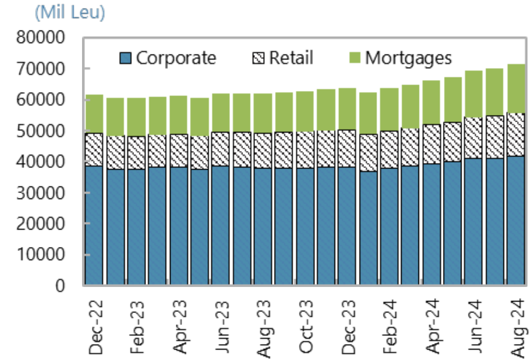
Risks appear limited so far…

Non-Performing Loans (NPL)



…with banks' exposure to real estate still low.

Total Outstanding Loans (Banks)
(Mil Leu)



Sources: NBS, NBM, Public Institution of Real Estate Cadaster of Moldova, and IMF staff calculations.

Note: Non-Performing Loans are computed using the NBM prudential classification.

Table 1. Moldova: Financing Needs and Sources

	2022	2023	2024	2025
Fiscal, MDL millions				
Fiscal Financing Needs	18,805	24,362	15,396	14,583
Budget Sources	6,279	8,108	5,706	9,852
Net Domestic Issuance	-389	3,893	5,061	8,724
Use of funds in the single Treasury account	5,569	2,616	-766	-5,301
Other Domestic 1/	-2,043	-4,649	-4,008	1,166
External Project Loans	3,142	6,248	5,419	5,264
IMF	3,262	3,929	4,741	1,100
ECF/EFF: Program	3,262	3,929	4,741	1,100
World Bank	3,015	3,996	982	1,288
DPO: Loan	2,841	1,812	708	1,288
DPO: Grant	174	2,184	274	0
European Commission	2,502	3,773	2,055	1,397
DG ECFIN: MFA Loans	701	1,764	956	909
DG ECFIN: MFA Grants	300	637	430	101
DG NEAR: Budget Support Grants	1,501	1,372	669	388
Bilateral Support	3,755	4,555	1,912	945
AFD: Budget Support Loan	304	0	0	0
AFD: Sectoral Support Loan	1,197	784	860	404
Government of Poland: Budget Support Loan	400	0	0	0
JICA: Budget Support Loan	0	1,812	0	0
Government of Romania: Grant	200	0	0	0
Government of Germany: Grant	801	0	0	0
Government of United States: Grant	568	1,450	0	0
Government of Norway: Grant	284	0	0	0
UNDP	0	510	0	0
Government of Canada	0	0	1,051	541
Balance of Payments, USD millions				
BOP financing needs	1235	1875	966	142
Reserves drawdown 2/	-572	-979	-419	115
External financing	663	896	547	257
IMF 3/	172	217	268	60
World Bank	159	221	56	70
DPO: Loan	150	100	40	70
DPO: Grant	9	120.5	15.5	0
Bilateral Loans	100	143	108	51
France - AFD	79	43	48.600	22
Government of Poland	21	0	0	0
Japan - JICA	0	100	0	0
Government of Canada	0	0	59.4	29.4
Bilateral Grants	98	108	0	0
Government of Romania	11	0	0	0
Government of Germany	42	0	0	0
Government of United States	30	80	0	0
Government of Norway	15	0	0	0
UNDP	0	28	0	0
European Commission	132	208	116	76
DG ECFIN: MFA Loans	37	97	54.0	49.4
DG ECFIN: MFA Grants	16	35	24	5
DG NEAR: Budget Support Grants	79	76	38	21

Sources: Moldovan authorities; and IMF staff estimates.
1/ Includes amortization of existing foreign project loans, privatization receipts, and some transfers between government bodies.
2/ Positive (negative) numbers indicate reserve drawdown (buildup).
3/ Excludes RSF

Table 2. Moldova: Selected Economic Indicators, 2019–2029 1/

	2019	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029
						5th Review	Proj.	5th Review	Proj.	Proj.	Proj.	Proj.	Proj.
						(Percent change, unless otherwise indicated)							
Real Sector Indicators													
Gross domestic product													
Real growth rate	3.6	-8.3	13.9	-4.6	0.7	2.6	2.6	3.7	3.0	4.4	5.0	5.0	5.0
Domestic Demand	4.1	-7.5	16.6	-1.9	-4.0	3.9	4.0	4.4	3.8	4.9	5.0	5.0	5.1
Consumption	3.7	-7.9	14.8	-2.2	-0.8	3.3	3.5	4.0	3.4	4.6	4.6	4.6	4.6
Private	-0.9	2.9	17.4	-4.7	-0.3	2.7	3.0	3.5	3.0	4.4	4.4	4.4	4.4
Public	47.6	16.1	3.0	10.7	-3.3	6.0	6.0	6.4	5.5	5.5	5.5	5.5	5.5
Gross fixed capital formation	12.0	5.6	1.9	-10.5	-1.3	5.8	5.0	6.2	5.5	6.0	6.7	6.8	7.2
Net Exports of goods and services	-3.8	2.8	-25.6	-8.7	2.9	-9.3	-10.1	-7.7	-7.1	-6.9	-5.2	-5.1	-5.5
Exports of goods and services	8.2	-14.9	17.5	26.7	5.4	3.7	-4.3	5.4	6.4	6.7	7.9	8.7	8.3
Imports of goods and services	6.2	-9.5	21.2	18.2	-5.2	6.0	1.5	6.4	6.7	6.8	6.8	7.2	7.2
Nominal GDP (billions of Moldovan lei)	206.3	199.7	242.1	274.5	300.5	329.1	320.6	360.0	348.4	383.8	425.2	471.2	522.1
Nominal GDP (billions of U.S. dollars)	11.7	11.5	13.7	14.5	16.6	18.1	18.1	19.6	18.9	20.8	22.9	25.2	27.8
Output Gap (percent of potential GDP)	1.1	-7.4	2.0	-5.4	-3.9	...	-2.9	...	-2.6	-1.0	-0.1	-0.1	0.0
Consumer price index (average)	4.8	3.8	5.1	28.7	13.4	5.0	4.6	5.0	5.0	5.0	5.0	5.0	5.0
Consumer price index (end of period)	7.5	0.4	13.9	30.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	5.3	5.6	6.4	18.9	8.7	6.8	4.0	5.5	5.5	5.5	5.5	5.5	5.5
Average monthly wage (Moldovan lei)	7,356	8,104	9,114	10,531	12,355	11,475	14,000	12,475	15,125	16,575	18,250	20,100	22,125
Average monthly wage (U.S. dollars)	419	468	516	556	682	630	791	681	822	896	982	1076	1179
Unemployment rate (annual average, percent)	5.1	3.8	3.3	3.1	4.6	3.5	3.7	3.5	3.7	3.7	3.7	3.7	3.7
						(Percent of GDP)							
Saving-Investment Balance													
Foreign saving	9.5	7.8	12.4	17.2	11.9	11.2	14.9	10.7	12.9	12.1	11.7	11.3	10.7
National saving	15.6	16.1	14.4	10.1	8.8	11.6	4.1	12.0	6.7	7.8	8.6	9.3	10.4
Private	13.4	17.5	13.8	8.7	9.1	13.2	5.9	12.3	7.3	7.9	8.2	8.6	9.2
Public	2.2	-1.4	0.6	1.4	-0.3	-1.5	-1.8	-0.3	-0.7	-0.1	0.4	0.7	1.1
Gross investment	25.1	23.9	26.9	27.3	20.7	22.9	19.0	22.8	19.6	19.9	20.3	20.6	21.1
Private	21.5	20.2	23.4	22.6	16.6	19.5	16.0	19.3	16.4	16.7	16.9	17.1	17.4
Public	3.6	3.6	3.5	4.7	4.2	3.3	3.0	3.4	3.1	3.3	3.4	3.5	3.7
Fiscal Indicators (General Government)													
Primary balance	-0.8	-4.7	-2.0	-2.3	-4.4	-4.0	-3.3	-2.9	-3.1	-2.8	-2.4	-2.3	-2.1
Overall balance	-1.5	-5.3	-2.6	-5.1	-5.2	-5.0	-4.4	-3.8	-4.0	-3.5	-3.1	-2.9	-2.7
Overall balance (baseline, no policy adjustment) 3/	-1.5	-5.3	-2.6	-3.2	-5.2	-5.0	-4.4	-3.8	-4.0	-3.5	-3.1	-2.9	-2.7
Stock of public and publicly guaranteed debt	28.1	35.6	34.6	36.6	36.6	38.6	38.2	38.0	39.3	38.6	37.4	36.3	34.6
						(Percent change, unless otherwise indicated)							
Financial Indicators													
Broad money (M3)	8.2	19.6	11.3	5.2	18.4	18.0	18.4	13.6	11.7	11.1	...	...	...
Velocity (GDP/end-period M3; ratio)	2.3	1.9	2.0	2.2	2.0	1.9	1.8	1.9	1.8	1.8	...	...	...
Reserve money	7.6	18.8	3.4	30.3	9.9	21.9	14.9	...	14.8	11.1	...	...	...
Credit to the economy	11.5	10.3	21.0	8.9	2.8	8.2	18.3	13.3	16.2	11.4	...	...	...
Credit to the economy, percent of GDP	21.4	24.4	24.4	23.4	22.0	21.7	24.4	22.5	26.1	26.4	...	...	...
						(Millions of U.S. dollars, unless otherwise indicated)							
External Sector Indicators 2/													
Current account balance	-1117	-901	-1699	-2498	-1974	-2026	-2703	-2107	-2440	-2519	-2670	-2843	-2976
Current account balance (percent of GDP)	-9.5	-7.8	-12.4	-17.2	-11.9	-11.2	-14.9	-10.7	-12.9	-12.1	-11.7	-11.3	-10.7
Remittances and compensation of employees (net)	1,729	1,669	1,826	1,519	1,561	1,693	1,488	1,862	1,598	1,758	1,934	2,127	2,340
Gross official reserves 3/	3,060	3,784	3,902	4,474	5,453	6,009	5,871	6,000	5,757	6,150	6,326	6,546	6,856
Gross official reserves (months of imports)	6.2	5.7	4.6	5.4	6.5	6.6	6.7	6.1	6.1	5.9	5.5	5.2	5.0
Exchange rate (Moldovan lei per USD, period average)	17.6	17.3	17.7	18.9	18.1	18.2	17.7	18.3	18.4	18.5	18.6	18.7	18.8
Exchange rate (Moldovan lei per USD, end of period)	17.2	17.2	17.7	19.2	17.4	18.6	18.0	18.7	18.8	18.9	19.0	19.1	18.7
Real effective exch.rate (average, percent change)	2.1	5.1	-1.6	6.9	11.0	-7.0	4.3	2.1	-0.3	2.4	2.5	2.5	2.5
External debt (percent of GDP) 4/	61.9	70.0	63.3	66.5	62.2	65.3	61.0	67.6	62.6	58.6	58.5	57.6	56.0
Debt service (percent of exports of goods and services)	13.4	15.8	11.9	8.8	11.1	12.9	14.0	13.3	14.3	15.1	13.6	11.5	10.1

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

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

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

4/ Includes private and public and publicly guaranteed debt.

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

Table 3a. Moldova: Balance of Payments, 2019–2029 1/

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-1,117	-901	-1,699	-2,498	-1,974	-2,703	-2,440	-2,519	-2,670	-2,843	-2,976
Merchandise trade balance	-3,312	-3,094	-4,190	-5,193	-4,888	-5,328	-5,556	-6,029	-6,604	-7,246	-7,965
Exports	2,118	1,944	2,562	3,701	3,426	3,004	3,124	3,390	3,709	4,072	4,479
Imports	5,430	5,039	6,752	8,894	8,313	8,332	8,680	9,419	10,312	11,318	12,444
Services balance	365	398	473	908	886	926	1,109	1,321	1,552	1,838	2,182
Exports of services	1,544	1,278	1,635	2,279	2,440	2,635	2,951	3,305	3,735	4,239	4,833
Imports of services	1,178	880	1,162	1,371	1,554	1,709	1,842	1,984	2,183	2,401	2,650
Income balance	615	390	267	60	210	212	419	464	507	555	606
Compensation of employees	878	730	787	728	773	779	818	900	990	1,088	1,197
Income on direct and portfolio investment	-262	-339	-524	-673	-567	-573	-405	-442	-488	-540	-597
Other income	-2	-1	4	5	3	6	6	6	6	6	6
Current transfer balance	1,214	1,406	1,752	1,727	1,819	1,487	1,587	1,724	1,874	2,010	2,201
Remittances	851	939	1,039	791	788	710	780	859	944	1,039	1,143
Budget transfers	206	96	105	120	389	104	80	73	66	30	32
Other transfers	157	371	608	816	641	673	727	793	864	942	1,026
Capital and Financial Account Balance	-1,191	-1,239	-1,443	-2,334	-2,647	-2,753	-2,145	-2,848	-2,802	-3,048	-3,307
Capital account balance	-55	-66	-51	20	82	16	17	17	18	19	20
Financial account balance (inflows: "-")	-1,246	-1,304	-1,494	-2,314	-2,566	-2,737	-2,128	-2,830	-2,784	-3,029	-3,286
Foreign direct investment, net (inflows: "-")	-468	-152	-372	-541	-416	-281	-431	-528	-579	-670	-746
Portfolio investment and derivatives, net	-15	1	-5	-1	0	-4	3	3	3	3	3
Other investment, net	-763	-1,153	-1,117	-1,773	-2,149	-2,453	-1,700	-2,305	-2,207	-2,362	-2,543
Loans	-122	-210	-149	-158	-279	-199	-61	-77	-86	-186	-234
General government, net	1	-100	-66	-26	-268	-71	60	54	46	-53	-100
Private sector, net	-123	-110	-83	-132	-11	-129	-121	-131	-132	-133	-134
Other capital flows, net	-641	-943	-968	-1,614	-1,870	-2,254	-1,639	-2,228	-2,122	-2,176	-2,310
Errors and omissions	22	62	18	24	54	0	0	0	0	0	0
Overall Balance	97	400	-238	-139	728	50	-295	328	132	205	331
Financing	-97	-400	238	139	-728	-50	295	-328	-132	-205	-331
Gross international reserves (increase: "+")	281	386	206	637	891	418	-115	393	177	220	310
Use of Fund credit, net (excl. RSF)	-36	186	-10	141	161	166	-17	-60	-80	-115	-153
Monetary authorities	-37	-43	-61	-21	-11	-17	-20	-29	-43	-58	-67
Purchases	18	7	0	0	0	0	0	0	0	0	0
Repurchases	55	50	61	21	11	17	20	29	43	58	67
General government	1	229	51	162	173	183	3	-30	-37	-57	-86
Purchases	28	254	81	172	217	268	60	0	0	0	0
Repurchases	26	25	30	10	44	85	56	30	37	57	86
Exceptional financing	24	161	77	211	341	202	171	100	100	100	100
European Commission	22	83	53	37	97	54	49	0	0	0	0
World Bank	1	54	0	150	100	40	70	0	0	0	0
Other official bilateral donors	0	24	24	24	143	108	51	100	100	100	100
	(Percent of GDP, unless otherwise indicated)										
Memorandum Items:											
Gross official reserves (millions of U.S. dollars) 2/	3,060	3,784	3,902	4,474	5,453	5,871	5,757	6,150	6,326	6,546	6,856
Months of imports of good and services	6.2	5.7	4.6	5.4	6.5	6.7	6.1	5.9	5.5	5.2	5.0
Percent of short term debt and CA deficit	96.7	91.5	72.3	86.5	88.0	104.5	104.9	123.6	123.5	128.5	334.7
Pct of short-term debt at remaining maturity	135.2	155.3	134.4	140.0	156.1	184.6	193.8	266.9	277.7	308.9	334.7
Pct of the IMF composite measure (floating) 3/	168.0	189.1	175.6	180.1	199.8	208.5	202.5	215.0	207.6	200.4	195.5
Gross official reserves, incl. RSF (millions of U.S. dollars)	3,060	3,784	3,902	4,474	5,453	5,929	5,929	6,322	6,499	6,719	7,029
Current account balance	-9.5	-7.8	-12.4	-17.2	-11.9	-14.9	-12.9	-12.1	-11.7	-11.3	-10.7
Goods and services trade balance	-25.1	-23.4	-27.1	-29.6	-24.1	-24.3	-23.5	-22.7	-22.1	-26.9	-26.2
Export of goods and services	31.2	27.9	30.7	41.3	35.4	31.1	32.1	32.3	32.5	32.9	33.5
Import of goods and services	56.3	51.3	57.8	70.8	59.5	55.4	55.6	54.9	54.6	59.8	59.7
Foreign direct investment balance	4.0	1.3	2.7	3.7	2.5	1.5	2.3	2.5	2.5	2.7	2.7
	(Percent change of amounts in U.S.dollars, unless otherwise indicated)										
Exports of goods	7.2	-8.2	31.8	44.5	-7.5	-12.3	4.0	8.5	9.4	9.8	10.0
Exports of services	4.5	-17.2	28.0	39.4	7.0	8.0	12.0	12.0	13.0	13.5	14.0
Imports of goods	3.0	-7.2	34.0	31.7	-6.5	0.2	4.2	8.5	9.5	9.8	10.0
Imports of services	5.1	-25.4	32.1	17.9	13.4	10.0	7.7	7.8	10.0	10.0	10.4
Remittances and compensation	14.7	14.5	13.3	10.5	9.4	8.2	8.4	8.5	8.5	8.4	8.4
Debt service (pct of exports of goods and services)	13.4	15.8	11.9	8.8	11.1	14.0	14.3	15.1	13.6	11.5	10.1

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. Excludes RSF disbursements.

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 3b. Moldova: Balance of Payments, 2019–2029 1/

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-9.5	-7.8	-12.4	-17.2	-11.9	-14.9	-12.9	-12.1	-11.7	-11.3	-10.7
Merchandise trade balance	-28.2	-26.8	-30.6	-35.8	-29.5	-29.4	-29.3	-29.1	-28.9	-28.7	-28.6
Exports	18.0	16.9	18.7	25.5	20.7	16.6	16.5	16.3	16.2	16.1	16.1
Imports	46.3	43.7	49.3	61.4	50.1	46.0	45.8	45.4	45.1	44.9	44.7
Services balance	3.1	3.5	3.5	6.3	5.3	5.1	5.9	6.4	6.8	7.3	7.8
Exports of services	13.2	11.1	11.9	15.7	14.7	14.5	15.6	15.9	16.3	16.8	17.4
Imports of services	10.0	7.6	8.5	9.5	9.4	9.4	9.7	9.6	9.5	9.5	9.5
Income balance	5.2	3.4	1.9	0.4	1.3	1.2	2.2	2.2	2.2	2.2	2.2
Compensation of employees	7.5	6.3	5.7	5.0	4.7	4.3	4.3	4.3	4.3	4.3	4.3
Income on direct and portfolio investment	-2.2	-2.9	-3.8	-4.6	-3.4	-3.2	-2.1	-2.1	-2.1	-2.1	-2.1
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	10.3	12.2	12.8	11.9	11.0	8.2	8.4	8.3	8.2	8.0	7.9
Remittances	7.3	8.1	7.6	5.5	4.8	3.9	4.1	4.1	4.1	4.1	4.1
Budget transfers	1.8	0.8	0.8	0.8	2.3	0.6	0.4	0.4	0.3	0.1	0.1
Other transfers	1.3	3.2	4.4	5.6	3.9	3.7	3.8	3.8	3.8	3.7	3.7
Capital and Financial Account Balance	-10.1	-10.7	-10.5	-16.1	-16.0	-15.2	-11.3	-13.7	-12.2	-12.1	-11.9
Capital account balance	-0.5	-0.6	-0.4	0.1	0.5	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	-10.6	-11.3	-10.9	-16.0	-15.5	-15.1	-11.2	-13.6	-12.2	-12.0	-11.8
Foreign direct investment, net (inflows: "-")	-4.0	-1.3	-2.7	-3.7	-2.5	-1.5	-2.3	-2.5	-2.5	-2.7	-2.7
Portfolio investment and derivatives, net	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-6.5	-10.0	-8.2	-12.2	-13.0	-13.5	-9.0	-11.1	-9.6	-9.4	-9.1
Loans	-1.0	-1.8	-1.1	-1.1	-1.7	-1.1	-0.3	-0.4	-0.4	-0.7	-0.8
General government, net	0.0	-0.9	-0.5	-0.2	-1.6	-0.4	0.3	0.3	0.2	-0.2	-0.4
Private sector, net	-1.1	-1.0	-0.6	-0.9	-0.1	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5
Other capital flows, net	-5.5	-8.2	-7.1	-11.1	-11.3	-12.4	-8.7	-10.7	-9.3	-8.6	-8.3
Errors and omissions	0.2	0.5	0.1	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	0.8	3.5	-1.7	-1.0	4.4	0.3	-1.6	1.6	0.6	0.8	1.2
Financing	-0.8	-3.5	1.7	1.0	-4.4	-0.3	1.6	-1.6	-0.6	-0.8	-1.2
Gross international reserves (increase: "+")	2.4	3.3	1.5	4.4	5.4	2.3	-0.6	1.9	0.8	0.9	1.1
Use of Fund credit, net	-0.3	1.6	-0.1	1.0	1.0	0.9	-0.1	-0.3	-0.3	-0.5	-0.5
Monetary authorities	-0.3	-0.4	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Purchases	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.5	0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
General government	0.0	2.0	0.4	1.1	1.0	1.0	0.0	-0.1	-0.2	-0.2	-0.3
Purchases	0.2	2.2	0.6	1.2	1.3	1.5	0.3	0.0	0.0	0.0	0.0
Repurchases	0.2	0.2	0.2	0.1	0.3	0.5	0.3	0.1	0.2	0.2	0.3
Exceptional financing	0.2	1.4	0.6	1.5	2.1	1.1	0.9	0.5	0.4	0.4	0.4
o/w											
European Commission	0.2	0.7	0.4	0.3	0.6	0.3	0.3	0.0	0.0	0.0	0.0
World Bank	0.0	0.5	0.0	1.0	0.6	0.2	0.4	0.0	0.0	0.0	0.0
Other official bilateral donors	0.0	0.2	0.2	0.2	0.9	0.6	0.3	0.5	0.4	0.4	0.4
Memorandum Items:											
Gross official reserves (millions of U.S. dollars) 2/	3,060	3,784	3,902	4,474	5,453	5,871	5,757	6,150	6,326	6,546	6,856
Months of imports of good and services	6.2	5.7	4.6	5.4	6.5	6.7	6.1	5.9	5.5	5.2	5.0
Percent of short term debt and CA deficit	96.7	91.5	72.3	86.5	88.0	104.5	104.9	123.6	123.5	128.5	334.7
Pct of short-term debt at remaining maturity	135.2	155.3	134.4	140.0	156.1	184.6	193.8	266.9	277.7	308.9	334.7
Pct of the IMF composite measure (floating) 3/	168.0	189.1	175.6	180.1	199.8	208.5	202.5	215.0	207.6	200.4	195.5
Gross official reserves, incl. RSF (millions of U.S. dollars) 2/	3,060	3,784	3,902	4,474	5,453	5,929	5,929	6,322	6,499	6,719	7,029
Current account balance	-9.5	-7.8	-12.4	-17.2	-11.9	-14.9	-12.9	-12.1	-11.7	-11.3	-10.7
Goods and services trade balance	-25.1	-23.4	-27.1	-29.6	-24.1	-24.3	-23.5	-22.7	-22.1	-26.9	-26.2
Export of goods and services	31.2	27.9	30.7	41.3	35.4	31.1	32.1	32.3	32.5	32.9	33.5
Import of goods and services	56.3	51.3	57.8	70.8	59.5	55.4	55.6	54.9	54.6	59.8	59.7
Foreign direct investment balance	4.0	1.3	2.7	3.7	2.5	1.5	2.3	2.5	2.5	2.7	2.7
	(Percent change of amounts in U.S.dollars, unless otherwise indicated)										
Exports of goods	7.2	-8.2	31.8	44.5	-7.5	-12.3	4.0	8.5	9.4	9.8	10.0
Exports of services	4.5	-17.2	28.0	39.4	7.0	8.0	12.0	12.0	13.0	13.5	14.0
Imports of goods	3.0	-7.2	34.0	31.7	-6.5	0.2	4.2	8.5	9.5	9.8	10.0
Imports of services	5.1	-25.4	32.1	17.9	13.4	10.0	7.7	7.8	10.0	10.0	10.4
Remittances and compensation	14.7	14.5	13.3	10.5	9.4	8.2	8.4	8.5	8.5	8.4	8.4
Remittances	4.5	10.3	10.6	-23.9	-0.3	-10.0	10.0	10.0	10.0	10.0	10.0
Compensation of employees	2.8	-16.8	7.8	-7.5	6.2	0.8	5.0	10.0	10.0	10.0	10.0
Debt service (pct of exports of goods and services)	13.4	15.8	11.9	8.8	11.1	14.0	14.3	15.1	13.6	11.5	10.1

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. Excludes RSF disbursements.

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 4a. Moldova: General Government Budget, 2019–2029
(Millions of Moldovan lei, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and Grants	62,949	62,655	77,378	91,481	102,299	109,741	119,254	132,549	148,103	164,567	183,076
Revenues	61,347	62,006	74,931	86,966	95,557	107,373	117,926	131,225	146,710	163,095	181,515
Tax revenues	58,458	58,987	71,233	82,447	90,634	101,961	112,006	124,718	139,568	155,228	172,807
Personal income	3,970	4,166	5,134	5,997	7,233	8,665	9,528	10,497	11,630	12,888	14,280
Corporate income	5,365	5,123	6,009	8,729	9,422	8,935	9,780	11,475	13,413	14,911	16,647
Property tax	580	582	756	755	794	815	835	920	1,020	1,134	1,265
VAT	20,183	19,775	25,509	29,057	30,209	33,470	36,403	40,470	45,243	50,588	56,558
Excises	6,222	6,469	7,608	8,013	10,138	11,700	12,689	14,234	16,054	17,791	19,712
Foreign trade	1,798	1,739	2,253	2,732	2,812	2,550	2,771	3,053	3,382	3,760	4,198
Other	1,935	1,898	2,125	2,242	1,004	2,420	2,362	2,602	2,883	3,205	3,578
Social Fund contributions	13,636	14,296	16,224	18,573	21,524	24,654	27,816	30,646	33,953	37,625	41,689
Health Fund contributions	4,768	4,940	5,615	6,350	7,498	8,752	9,822	10,821	11,989	13,327	14,879
Non-tax revenues	2,889	3,018	3,698	4,519	4,924	5,412	5,920	6,508	7,142	7,867	8,708
NBM profit transfers	0	218	407	147	0	0	0	0	0	0	0
Grants	1,603	650	2,447	4,515	6,742	2,368	1,328	1,324	1,394	1,472	1,561
Budget support	1,235	316	2,014	3,882	5,782	1,617	402	410	432	456	483
Project	368	334	434	633	960	751	926	914	962	1,016	1,078
Expenditure and Net Lending	65,972	73,275	83,714	100,374	117,871	123,763	133,348	145,984	161,340	178,462	197,424
Current expenditure	58,975	65,687	76,151	89,921	105,996	113,459	121,842	132,839	146,209	161,041	177,367
Wages	15,649	17,214	18,776	21,400	25,514	27,828	29,815	32,550	35,737	39,245	43,092
Goods and services	12,080	13,276	16,683	18,601	20,295	22,975	24,537	26,533	28,824	31,318	34,025
Interest payments	1,641	1,707	1,941	2,736	5,436	4,615	4,730	5,211	5,774	6,398	7,089
Domestic	1,213	1,333	1,550	2,163	3,972	2,657	2,513	2,871	3,305	3,805	4,380
Foreign	428	374	391	574	1,465	1,958	2,217	2,340	2,469	2,593	2,709
Transfers	24,616	28,848	33,467	43,777	49,563	50,926	54,529	60,076	66,492	73,683	81,642
Transfers to economy 1/	2,316	3,840	5,280	6,033	5,061	5,942	6,239	6,874	7,547	8,363	9,266
Transfers to households	22,301	25,008	28,187	37,744	44,501	44,984	48,290	53,203	58,945	65,320	72,375
Other current expenditure	4,989	4,642	5,285	3,406	5,188	7,115	8,231	8,468	9,382	10,397	11,520
Capital expenditure	6,997	7,588	7,563	10,454	11,876	10,304	11,506	13,145	15,131	17,422	20,056
One-off revenue and expenditure items 2/	0	0	0	-5083	0	0	0	0	0	0	0
Overall Balance (incl. one-off items)	-3,023	-10,620	-6,335	-13,976	-15,572	-14,022	-14,094	-13,434	-13,237	-13,896	-14,348
Overall balance (excl. one-off items)	-3,023	-10,620	-6,335	-8,893	-15,572	-14,022	-14,094	-13,434	-13,237	-13,896	-14,348
Primary balance (excl. one-off items)	-1,595	-9,469	-4,843	-6,300	-13,328	-10,713	-10,724	-10,791	-10,370	-10,764	-10,840
Financing (excl. one-off items)	2,125	3,865	-285	1,370	3,803	5,706	9,853	11,585	11,379	12,028	12,471
Budget financing	693	819	-3,140	-1,741	-2,422	286	4,589	8,510	8,319	8,985	9,445
Central government	775	402	-2,865	-994	-2,471	1,318	4,589	8,510	8,319	8,985	9,445
Net domestic 3/	1,701	1,856	-4,688	-4,483	-1,216	4,295	3,423	10,228	10,810	12,582	14,016
Net foreign (excl. project loans, incl. RSF)	-2,123	-1,281	1,685	3,489	-2,780	-4,486	1,016	-1,869	-2,641	-3,747	-4,721
Privatization	85	151	138	0	1,525	1,510	150	150	150	150	150
Others	1,112	-325	0	0	0	0	0	0	0	0	0
Local governments	211	0	-227	-20	49	-1,032	0	0	0	0	0
Privatization	2	0	0	0	0	0	0	0	0	0	0
Social Fund	-146	0	-60	-51	0	0	0	0	0	0	0
Health Fund	-147	417	12	-676	0	0	0	0	0	0	0
Net project loans	1,613	3,047	2,855	3,111	6,225	5,419	5,264	3,075	3,060	3,044	3,026
Of which: Onlending (through commercial banks)	-113	-649	-651	-31	-287	-1,255	-123	-136	-150	-166	-184
Financing Gap	898	6,754	6,620	7,523	11,769	8,317	4,241	1,850	1,859	1,868	1,877
World Bank	24	930	0	2,841	1,812	708	1,288	0	0	0	0
IMF	483	4,393	1,439	3,262	3,929	4,741	1,100	0	0	0	0
Others 4/	391	1,431	5,181	1,420	6,027	2,867	1,854	1,850	1,859	1,868	1,877
Financing for one-off items											
Government securities issued	0	0	0	0	0	0	0	0	0	0	0
					(Millions of Moldovan lei)						
Memorandum Items:											
Public and publicly guaranteed debt	57,989	71,072	83,665	100,328	110,068	122,577	136,917	148,088	158,998	170,952	180,562

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, and recapitalization of Energocom in 2022.
3/ Net domestic financing in 2024 and 2025 is lower than what it would have been without RSF disbursements
4/ Includes SDR allocation in 2021 (about US$236 million).

Table 4b. Moldova: General Government Budget, 2019–2029

(Percent of GDP, unless otherwise stated)

	2019	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029
						Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and Grants	30.5	31.4	32.0	33.3	34.0	33.4	34.2	34.2	34.5	34.8	34.9	35.1
Revenues	29.7	31.0	31.0	31.7	31.8	32.8	33.5	33.9	34.2	34.5	34.6	34.8
Tax revenues	28.3	29.5	29.4	30.0	30.2	31.3	31.8	32.2	32.5	32.8	32.9	33.1
Personal income	1.9	2.1	2.1	2.2	2.4	2.5	2.7	2.7	2.7	2.7	2.7	2.7
Corporate income	2.6	2.6	2.5	3.2	3.1	3.0	2.8	2.8	3.0	3.2	3.2	3.2
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
VAT	9.8	9.9	10.5	10.6	10.1	10.7	10.4	10.4	10.5	10.6	10.7	10.8
Excises	3.0	3.2	3.1	2.9	3.4	3.3	3.6	3.6	3.7	3.8	3.8	3.8
Foreign trade	0.9	0.9	0.9	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other	0.9	1.0	0.9	0.8	0.3	0.9	0.8	0.7	0.7	0.7	0.7	0.7
Social Fund contributions	6.6	7.2	6.7	6.8	7.2	7.4	7.7	8.0	8.0	8.0	8.0	8.0
Health Fund contributions	2.3	2.5	2.3	2.3	2.5	2.6	2.7	2.8	2.8	2.8	2.8	2.8
Non-tax revenues	1.4	1.5	1.5	1.6	1.6	1.5	1.7	1.7	1.7	1.7	1.7	1.7
NBM profit transfers	0.0	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.8	0.3	1.0	1.6	2.2	0.6	0.7	0.4	0.3	0.3	0.3	0.3
Budget support	0.6	0.2	0.8	1.4	1.9	0.4	0.5	0.1	0.1	0.1	0.1	0.1
Project	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Expenditure and Net Lending	32.0	36.7	34.6	36.6	39.2	38.4	38.6	38.3	38.0	37.9	37.9	37.8
Current expenditure	28.6	32.9	31.5	32.8	35.3	35.1	35.4	35.0	34.6	34.4	34.2	34.0
Wages	7.6	8.6	7.8	7.8	8.5	8.6	8.7	8.6	8.5	8.4	8.3	8.3
Goods and services	5.9	6.6	6.9	6.8	6.8	7.0	7.2	7.0	6.9	6.8	6.6	6.5
Interest payments	0.8	0.9	0.8	1.0	1.8	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Domestic	0.6	0.7	0.6	0.8	1.3	0.9	0.8	0.7	0.7	0.8	0.8	0.8
Foreign	0.2	0.2	0.2	0.2	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.5
Transfers	11.9	14.4	13.8	15.9	16.5	15.5	15.9	15.7	15.7	15.6	15.6	15.6
Transfers to economy 1/	1.1	1.9	2.2	2.2	1.7	1.7	1.9	1.8	1.8	1.8	1.8	1.8
Transfers to households	10.8	12.5	11.6	13.8	14.8	13.9	14.0	13.9	13.9	13.9	13.9	13.9
Other current expenditure	2.4	2.3	2.2	1.2	1.7	2.3	2.2	2.4	2.2	2.2	2.2	2.2
Capital expenditure	3.4	3.8	3.1	3.8	4.0	3.3	3.2	3.3	3.4	3.6	3.7	3.8
One-off revenue and expenditure items 2/	0.0	0.0	0.0	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (incl. one-off items)	-1.5	-5.3	-2.6	-5.1	-5.2	-4.9	-4.4	-4.0	-3.5	-3.1	-2.9	-2.7
Overall balance (excl. one-off items)	-1.5	-5.3	-2.6	-3.2	-5.2	-4.9	-4.4	-4.0	-3.5	-3.1	-2.9	-2.7
Primary balance (excl. one-off items)	-0.8	-4.7	-2.0	-2.3	-4.4	-3.9	-3.3	-3.1	-2.8	-2.4	-2.3	-2.1
Financing (excl. one-off items)	1.0	1.9	-0.1	0.5	1.3	2.5	1.8	2.8	3.0	2.7	2.6	2.4
Budget financing	0.3	0.4	-1.3	-0.6	-0.8	2.8	0.1	1.3	2.2	2.0	1.9	1.8
Central government	0.4	0.2	-1.2	-0.4	-0.8	2.8	0.4	1.3	2.2	2.0	1.9	1.8
Net domestic 3/	0.8	0.9	-1.9	-1.6	-0.4	0.9	1.3	1.0	2.7	2.5	2.7	2.7
Net foreign (excl. project loans)	-1.0	-0.6	0.7	1.3	-0.9	1.3	-1.4	0.3	-0.5	-0.6	-0.8	-0.9
Privatization	0.0	0.1	0.1	0.0	0.5	0.6	0.5	0.0	0.0	0.0	0.0	0.0
Others	0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	0.1	0.0	-0.1	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Fund	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health Fund	-0.1	0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net project loans	0.8	1.5	1.2	1.1	2.1	3.0	1.7	1.5	0.8	0.7	0.6	0.6
Of which: Onlending (through commercial banks)	-0.1	-0.3	-0.3	0.0	-0.1	1.2	-0.4	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.4	3.4	2.7	2.7	3.9	2.5	2.6	1.2	0.5	0.4	0.4	0.4
World Bank	0.0	0.5	0.0	1.0	0.6	0.2	0.2	0.4	0.0	0.0	0.0	0.0
IMF	0.2	2.2	0.6	1.2	1.3	0.8	1.5	0.3	0.0	0.0	0.0	0.0
Others 4/	0.2	0.7	2.1	0.5	2.0	1.5	0.9	0.5	0.5	0.4	0.4	0.4
Financing for one-off items												
Government securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:												
Public and publicly guaranteed debt	28.1	35.6	34.6	36.6	36.6	40.1	38.2	39.3	38.6	37.4	36.3	34.6

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, and recapitalization of Energocom in 2022.

3/ Net domestic financing in 2024 and 2025 is lower than what it would have been without RSF disbursements

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

Table 5. Moldova: Accounts of the National Bank of Moldova and Depository Corporations Survey, 2018–2025

(Millions of Moldovan lei, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025
							Proj.	Proj.
National Bank of Moldova								
Net foreign assets 1/	45,700	47,526	62,701	67,592	84,470	93,898	104,690	107,244
NFA (convertible)	46,855	48,513	62,700	67,598	84,483	93,926	104,682	107,235
Gross reserves	51,345	52,654	65,132	69,240	85,716	94,918	105,571	108,124
Reserve liabilities	4,490	4,141	2,433	1,642	1,233	993	889	889
Net domestic assets	-2,143	-675	-7,062	-10,044	-9,491	-11,527	-10,079	1,388
Net claims on general government	7,956	9,347	4,758	192	5,503	3,502	2,299	-3,792
Credit to banks	-6,299	-5,403	-6,383	-3,704	-6,617	-11,180	-5,805	13,193
Other items (net)	-3,800	-4,619	-5,436	-6,533	-8,377	-3,849	-6,573	-8,013
Reserve money	43,557	46,851	55,639	57,548	74,980	82,371	94,611	108,631
Currency in circulation	21,077	22,953	29,819	31,699	34,406	38,554	46,491	51,950
Banks' reserves	22,315	23,860	25,808	25,811	40,125	43,652	48,121	56,681
Required reserves	18,656	20,518	23,010	23,247	37,726	40,537	42,306	47,251
Other reserves	3,659	3,342	2,798	2,564	2,399	3,114	5,815	9,430
Monetary Survey								
Net foreign assets	71,780	74,503	89,983	97,303	102,741	117,580	134,204	138,388
NFA (convertible)	65,793	68,481	82,939	90,658	96,966	111,560	127,883	131,751
Of which: commercial banks	18,938	19,968	20,240	23,061	12,482	17,634	23,201	24,516
Foreign assets of commercial banks	22,641	23,342	23,788	27,094	19,536	24,128	28,189	29,803
Foreign liabilities of commercial banks	-3,703	-3,374	-3,548	-4,034	-7,054	-6,494	-4,988	-5,287
NFA (non-convertible)	5,987	6,022	7,044	6,645	5,776	6,020	6,321	6,637
Net domestic assets	11,378	15,448	17,641	22,457	23,277	31,601	42,382	58,932
Net claims on general government	12,353	13,438	14,142	11,264	13,898	17,678	21,075	24,983
Credit to economy	39,656	44,207	48,744	58,996	64,272	66,098	78,178	90,820
Moldovan lei	22,779	27,302	31,139	40,713	41,688	46,329	54,046	62,793
Foreign exchange	16,878	16,905	17,605	18,283	22,583	19,768	24,132	28,028
in U.S. dollars	985	982	1,023	1,030	1,179	1,136	1,342	1,492
Other items (net)	-40,631	-42,198	-45,245	-47,803	-54,893	-52,175	-56,871	-56,871
Broad money (M3)	83,159	89,951	107,625	119,760	126,018	149,181	176,585	197,321
Broad money (M2: excluding FCD)	58,334	63,137	75,891	83,080	90,971	110,032	131,581	147,248
Currency in circulation	21,077	22,953	29,819	31,699	34,406	38,554	46,491	51,950
Total deposits	62,081	66,997	77,806	88,062	91,612	110,627	130,094	145,371
Domestic currency deposits	37,257	40,184	46,072	51,382	56,565	71,478	85,090	95,298
Foreign currency deposits (FCD)	24,824	26,814	31,734	36,680	35,047	39,148	45,005	50,073
in U.S. dollars	1,448	1,558	1,843	2,067	1,829	2,249	2,503	2,666
Memorandum Items:								
Reserve money growth (percent change; annual)	17.7	7.6	18.8	3.4	30.3	9.9	14.9	14.8
Broad money growth (percent change; annual)	7.8	8.2	19.6	11.3	5.2	18.4	18.4	11.7
Credit to economy (percent change, annual)	4.1	11.5	10.3	21.0	8.9	2.8	18.3	16.2
in lei	5.2	19.9	14.1	30.7	2.4	11.1	16.7	16.2
in foreign exchange ($ equivalent)	2.6	0.2	4.1	3.8	23.5	-12.5	22.1	16.1
Gross international reserves (millions of U.S. dollars)	2,995	3,060	3,784	3,902	4,474	5,453	5,872	5,757
Percent of domestic-currency broad money	88	83	86	83	94	86	80	73
Broad money multiplier	1.9	1.9	1.9	2.1	1.7	1.8	1.9	1.8

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 6. Moldova: Financial Soundness Indicators, 2018–2024

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

	2018	2019	2020	2021	2022	2023	2023	2023	2023	2024	2024	2024
	Dec	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Size												
Number of banks	11	11	11	11	11	11	11	11	11	11	11	11
Total bank assets (billions of lei)	83.2	90.7	103.8	118.5	131.44	138.27	144.45	144.86	153.93	157.76	161.25	164.73
Total bank loans (percent of GDP)	18.66	19.19	22.12	23.30	22.61	20.34	20.63	20.73	21.27	21.71	23.17	24.69
Total bank assets (percent of GDP)	43.76	43.11	50.28	49.01	48.23	46.02	48.07	48.21	51.23	52.51	53.67	54.82
Capital adequacy												
Total regulatory capital (billions of lei)	10.8	11.4	13.6	15.2	18.39	18.27	20.71	20.52	20.95	20.38	21.85	21.35
Capital adequacy ratio	26.52	24.82	27.27	25.87	29.49	28.95	31.83	30.96	29.95	28.32	28.77	26.89
Liquidity												
Liquid assets (billions of lei)	45.4	45.9	*52.4*	57.6								
Total deposits (billions of lei)	63.5	68.4	*79.6*	90.1	94.97	100.15	106.55	105.97	113.86	117.48	120.46	124.34
Liquidity ratio (liquid assets in percent of total deposits)	71.57	67.11	65.85	63.90								
Liquid assets in total assets	54.62	50.59	*50.56*	48.56								
Liquidity reserves (billions of lei)					25.62	29.84	31.47	28.23	34.09	34.50	31.89	32.72
Liquidity coverage ratio (LCR, %)					267.9	253.45	255.31	266.84	282.30	276.14	260.93	280.22
Asset quality												
Gross loans (billions of lei)	35.5	40.4	*45.6*	56.4	61.63	61.12	61.99	62.30	63.90	65.25	69.61	74.20
Nonperforming loans (billions of lei)	4.4	3.4	3.4	3.5	3.97	3.96	4.41	4.20	3.55	3.57	3.38	3.52
Substandard	1.5	1.4	1.2	1.5	1.87	2.01	2.63	2.34	1.88	1.95	1.84	1.98
Doubtful	1.0	0.5	0.7	0.5	0.83	0.64	0.67	0.71	0.66	0.57	0.52	0.51
Loss	2.0	1.5	1.5	1.4	1.27	1.31	1.11	1.14	1.01	1.05	1.02	1.02
Loan loss provisions (billions of lei)	3.8	3.2	3.4	3.6	3.91	3.87	3.95	3.98	3.76	3.91	4.02	4.18
Nonperforming loans as a share of total loans	12.54	8.49	7.38	6.14	6.44	6.48	7.11	6.74	5.55	5.48	4.85	4.74
Substandard	4.20	3.55	2.71	2.71	3.04	3.29	4.24	3.76	2.94	2.99	2.64	2.67
Doubtful	2.80	1.15	1.45	0.88	1.34	1.05	1.08	1.15	1.03	0.87	0.74	0.69
Loss	5.54	3.80	3.22	2.55	2.06	2.15	1.79	1.83	1.58	1.62	1.46	1.38
Provisions to non-performing loans	86.59	93.72	101.03	104.15	98.54	97.69	89.51	94.92	106.03	109.41	119.22	118.96
Loan-loss provisioning/gross loans	10.86	7.96	7.46	6.39	6.35	6.33	6.37	6.39	5.89	5.99	5.78	5.64
Profitability												
Return on equity	11.6	14.64	8.74	12.36	16.87	22.06	19.57	17.91	16.20	12.14	12.97	14.55
Return on assets	1.9	2.48	1.51	2.02	2.86	3.80	3.37	3.08	2.78	2.10	2.18	2.36
Foreign currency assets and liabilities												
Total liabilities (billions of lei)	68.9	74.3	85.9	99.1	108.13	113.54	119.53	118.99	127.29	130.78	135.15	137.70
Foreign currency liabilities (billions of lei)	29.0	31.2	36.9	42.46	44.59	43.27	44.53	45.70	48.11	48.66	48.60	49.51
Foreign currency denominated liabilities in total liabilities	42.13	42.07	42.91	42.85	41.24	38.11	37.25	38.40	37.80	37.20	35.96	35.95
Foreign currency denominated assets (billions lei)	28.9	31.2	36.9	42.43	45.19	43.76	44.43	45.92	48.36	48.65	49.08	49.63
Foreign currency denominated assets in total assets	34.71	34.40	35.53	35.79	34.38	31.65	30.76	31.70	31.41	30.84	30.43	30.13
Foreign currency deposits in total deposits	41.14	40.97	41.83	42.61	39.96	36.59	35.89	37.37	36.85	36.02	35.55	35.41
Foreign currency denominated loans in total loans	38.48	33.34	30.48	26.51	30.48	30.06	29.24	27.70	25.84	24.49	22.96	21.71

Source: National Bank of Moldova.

Table 7. Moldova: External Finance Requirements and Sources, 2016–2025 3/

(Millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
									Proj.	
Gross Financing Requirement 1/	528	795	1,545	1,511	1,296	1,943	2,913	2,453	3,247	3,027
of which: fiscal financing requirements	154	139	73	51	387	375	397	649	470	231
Identified Financing Sources	847	1,132	1,683	1,431	1,497	1,887	2,889	2,449	3,118	2,655
Change in Gross Reserves (increase = +)	531	531	236	60	637	206	637	891	419	-115
Financing Gap	212	193	98	141	437	262	662	896	547	257
Official Financing	212	193	98	141	437	262	662	896	547	257
Identified program financing	177	150	65	94	182	181	490	679	280	197
European Commission	47	36	0	93	104	171	132	208	116	76
World Bank	62	5	60	1	54	0	159	221	56	70
Other bilateral donors 2/	68	108	5	0	24	10	198	250	108	51
Fund Program (excl. RSF)	35	44	33	46	255	81	172	217	268	60
Memorandum items										
RSF disbursements									58	115

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/ Including AFD, JICA, UNDP, Canada, USA, Norway, Poland, Germany.

3/ The increase in the identified financing sources in 2024 is explained by the increase in net flows of currency and deposits.

Table 8. Moldova: Indicators of Fund Credit, 2024–2048 1/

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund Obligations Based on Existing Credit (millions of SDRs)													
Principal	76.5	57.0	44.5	59.5	79.1	96.4	87.2	80.2	68.6	29.3	17.4	3.2	3.2
Charges and interest 1/	29.3	24.9	23.9	22.9	21.5	19.5	17.4	15.5	13.6	12.1	11.2	10.9	10.7
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)													
Principal	76.5	57.0	44.5	59.5	79.1	111.1	109.8	105.6	94.1	54.7	42.9	13.6	12.9
GRA	71.1	43.1	24.4	31.3	41.3	68.2	66.8	66.0	62.9	38.5	31.4	3.2	0.0
PRGT	5.4	13.9	20.1	28.1	37.8	42.9	43.0	39.6	31.2	16.2	11.4	2.9	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.5	12.9
Charges and interest 1/	29.7	31.4	32.3	31.2	29.8	27.7	25.0	22.4	19.8	17.6	15.9	15.0	14.4
otal Obligations Based on Existing and Prospective Credit													
Millions of SDRs	106.2	88.4	76.8	90.7	108.9	138.8	134.8	128.0	113.8	72.3	58.8	28.6	27.4
Millions of U.S. dollars	141.7	117.7	103.0	122.0	146.6	187.2	182.0	172.7	153.6	97.6	79.3	38.5	36.9
Percent of exports of goods and services	2.5	1.9	1.5	1.6	1.8	2.1	1.9	1.7	1.4	0.8	0.6	0.3	0.3
Percent of debt service 2/	41.3	35.4	33.9	38.4	41.9	47.1	46.3	45.0	43.8	31.7	25.3	15.0	16.7
Percent of GDP	0.8	0.6	0.5	0.5	0.6	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.1
Percent of gross international reserves	2.4	2.0	1.7	1.9	2.2	2.7	2.5	2.3	1.9	1.2	0.9	0.4	0.4
Percent of quota	61.6	51.3	44.5	52.6	63.1	80.5	78.2	74.2	66.0	41.9	34.1	16.6	15.9
Principal	44.3	33.1	25.8	34.5	45.8	64.4	63.7	61.2	54.5	31.7	24.8	7.9	7.5
GRA	41.2	25.0	14.1	18.2	23.9	39.5	38.7	38.3	36.4	22.3	18.2	1.8	0.0
PRGT	3.1	8.1	11.7	16.3	21.9	24.9	24.9	23.0	18.1	9.4	6.6	1.7	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.4	7.5
Outstanding Fund Credit Based on Existing and Prospective Credit													
Millions of SDRs	762.9	836.7	792.2	732.7	653.6	542.6	432.8	327.1	233.0	178.3	135.4	121.8	108.9
GRA	451.6	434.0	409.6	378.3	337.1	268.9	202.1	136.0	73.2	34.6	3.2	0.0	0.0
PRGT	268.2	273.3	253.2	225.0	187.2	144.3	101.3	61.7	30.5	14.3	2.9	0.0	0.0
RSF	43.1	129.4	129.4	129.4	129.4	129.4	129.4	129.4	129.4	129.4	129.4	121.8	108.9
Millions of U.S. dollars	1,017.7	1,113.9	1,062.6	985.6	879.8	731.7	584.0	441.4	314.5	240.6	182.8	164.4	146.9
Percent of exports of goods and services	18.0	18.3	15.9	13.2	10.7	8.1	6.0	4.3	2.8	2.0	1.4	1.2	1.0
Percent of debt service 2/	296.7	334.7	350.3	310.3	251.3	184.1	148.4	114.9	89.6	78.1	58.3	64.0	66.6
Percent of GDP	5.6	5.9	5.1	4.3	3.5	2.6	2.0	1.4	0.9	0.7	0.5	0.4	0.3
Percent of gross international reserves	17.3	19.3	17.3	15.6	13.4	10.7	8.1	5.9	4.0	2.9	2.1	1.8	1.5
Percent of quota	442.2	485.0	459.2	424.8	378.9	314.5	250.9	189.6	135.1	103.4	78.5	70.6	63.1
GRA	261.8	251.6	237.5	219.3	195.4	155.9	117.1	78.9	42.4	20.1	1.8	0.0	0.0
PRGT	155.4	158.4	146.8	130.5	108.5	83.7	58.7	35.8	17.7	8.3	1.7	0.0	0.0
RSF	25.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	70.6	63.1
Net Use of Fund Credit (millions of SDRs)	124.7	(12.5)	(44.5)	(59.5)	(79.1)	(111.1)	(109.8)	(105.6)	(94.1)	(54.7)	(42.9)	(13.6)	(12.9)
Disbursements and purchases	201.2	44.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	76.5	57.0	44.5	59.5	79.1	111.1	109.8	105.6	94.1	54.7	42.9	13.6	12.9
Memorandum Items:													
Exports of goods and services (millions of U.S. dollars)	5,639.1	6,075.5	6,695.2	7,443.5	8,208.8	9,051.8	9,691.3	10,376.0	11,109.1	11,893.9	12,734.2	13,633.8	14,597.0
Debt service (millions of U.S. dollars) 2/	343.0	332.8	303.3	317.6	350.1	397.4	393.4	384.2	351.1	307.9	313.7	257.1	220.6
Nominal GDP (millions of U.S. dollars) 2/	18,112.4	18,933.1	20,751.9	22,880.3	25,232.6	27,824.1	29,789.9	31,894.5	34,147.8	36,560.2	39,143.2	41,908.6	44,869.3
Gross International Reserves (millions of U.S. dollars)	5,871.8	5,756.9	6,150.0	6,326.6	6,546.7	6,856.7	7,188.5	7,543.8	7,924.2	8,331.4	8,767.5	9,234.3	9,734.1
Average exchange rate: SDR per U.S. dollars	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Quota (millions of SDRs)	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5

	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund Obligations Based on Existing Credit (millions of SDRs)												
Principal	3.2	4.9	1.6	3.2	3.2	3.2	3.2	3.2	0.0	0.0	0.0	0.0
Charges and interest 1/	10.6	10.5	10.3	10.2	10.1	9.9	9.8	9.7	9.4	9.4	9.4	9.4
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)												
Principal	12.9	14.6	11.3	12.9	12.9	12.9	12.9	12.9	5.4	0.0	0.0	0.0
GRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	12.9	14.6	11.3	12.9	12.9	12.9	12.9	12.9	5.4	0.0	0.0	0.0
Charges and interest 1/	13.9	13.3	12.8	12.3	11.7	11.2	10.6	10.1	9.7	9.6	9.6	9.6
otal Obligations Based on Existing and Prospective Credit												
Millions of SDRs	26.8	27.9	24.1	25.2	24.6	24.1	23.6	23.0	15.1	9.6	9.6	9.6
Millions of U.S. dollars	36.2	37.6	32.5	34.0	33.3	32.5	31.8	31.1	20.3	12.9	12.9	13.0
Percent of exports of goods and services	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Percent of debt service 2/	22.9	21.2	27.1	30.1	32.9	29.6	41.2	37.1	26.2	18.4	18.4	18.4
Percent of GDP	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1
Percent of quota	15.5	16.2	14.0	14.6	14.3	14.0	13.7	13.3	8.7	5.6	5.6	5.6
Principal	7.5	8.4	6.6	7.5	7.5	7.5	7.5	7.5	3.1	0.0	0.0	0.0
GRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	7.5	8.4	6.6	7.5	7.5	7.5	7.5	7.5	3.1	0.0	0.0	0.0
Outstanding Fund Credit Based on Existing and Prospective Credit												
Millions of SDRs	96.0	81.4	70.1	57.1	44.2	31.3	18.3	5.4	0.0	0.0	0.0	0.0
GRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	96.0	81.4	70.1	57.1	44.2	31.3	18.3	5.4	0.0	0.0	0.0	0.0
Millions of U.S. dollars	129.5	109.8	94.6	77.1	59.7	42.2	24.7	7.3	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.8	0.7	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Percent of debt service 2/	81.9	61.9	78.9	68.2	59.0	38.4	32.1	8.7	0.0	0.0	0.0	0.0
Percent of GDP	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	1.3	1.0	0.8	0.7	0.5	0.3	0.2	0.1	0.0	0.0	0.0	0.0
Percent of quota	55.6	47.2	40.6	33.1	25.6	18.1	10.6	3.1	0.0	0.0	0.0	0.0
GRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	55.6	47.2	40.6	33.1	25.6	18.1	10.6	3.1	0.0	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	(12.9)	(14.6)	(11.3)	(12.9)	(12.9)	(12.9)	(12.9)	(12.9)	(5.4)	0.0	0.0	0.0
Disbursements and purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	12.9	14.6	11.3	12.9	12.9	12.9	12.9	12.9	5.4	0.0	0.0	0.0
Memorandum Items:												
Exports of goods and services (millions of U.S. dollars)	15,628.3	16,732.4	17,914.5	19,180.1	20,535.2	21,986.0	24,184.6	26,603.0	29,263.3	32,189.7	35,408.6	38,949.5
Debt service (millions of U.S. dollars) 2/	158.0	177.5	119.9	113.0	101.1	109.9	77.1	83.7	77.7	70.3	70.3	70.3
Nominal GDP (millions of U.S. dollars) 2/	48,039.3	51,433.2	55,066.9	58,957.2	63,122.5	67,582.0	74,340.2	81,774.2	89,951.6	98,946.8	108,841.5	119,725.6
Gross International Reserves (millions of U.S. dollars)	10,233.9	10,733.7	11,233.5	11,733.4	12,233.2	12,733.0	13,232.8	13,732.6	14,232.4	14,732.2	15,232.0	15,731.8
Average exchange rate: SDR per U.S. dollars	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Quota (millions of SDRs)	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. Moldova belongs to the RST Group B.

2/ Total debt service includes IMF repurchases and repayments.

Table 9. Moldova: Schedule of Reviews and Disbursements Under the ECF/EFF 1/

	Amount of Disbursement/Purchase			Percent of Quota			
Available on or after	Total	ECF	EFF	Total	ECF	EFF	Conditions
1. December 20, 2021	57,150,000	19,050,000	38,100,000	33.13	11.04	22.09	Board approval of the Arrangement
2. May 11, 2022	108,150,000	64,750,000	43,400,000	62.70	37.54	25.16	Board completion of ad hoc review, augmentation of access, the inflation consultation clause; and based on observance of continuous performance criteria, and prior action
3. July 14, 2022	20,650,000	9,525,000	11,125,000	11.97	5.52	6.45	Observance of end-June 2022 performance criteria, continuous performance criteria, and completion of first review
4. October 14, 2022	20,650,000	9,525,000	11,125,000	11.97	5.52	6.45	Observance of end-September 2022 performance criteria, continuous performance criteria, and completion of second review
5. January 24, 2023	70,950,000	19,050,000	51,900,000	41.13	11.04	30.09	Observance of end-December 2022 performance criteria, continuous performance criteria, and completion of third review
6. July 24, 2023	70,950,000	19,050,000	51,900,000	41.13	11.04	30.09	Observance of end-June 2023 performance criteria, continuous performance criteria, and completion of fourth review
7. January 24, 2024	100,600,000	19,050,000	81,550,000	58.32	11.04	47.28	Observance of end-December 2023 performance criteria, continuous performance criteria, and completion of fifth review
8. July 24, 2024	100,600,000	19,050,000	81,550,000	58.32	11.04	47.28	Observance of end-June 2024 performance criteria, continuous performance criteria, and completion of sixth review
9. January 24, 2025	22,281,250	9,518,750	12,762,500	12.92	5.52	7.40	Observance of end-December 2024 performance criteria, continuous performance criteria, and completion of seventh review
10. July 24, 2025	22,281,250	9,518,750	12,762,500	12.92	5.52	7.40	Observance of end-June 2025 performance criteria, continuous performance criteria, and completion of eighth review
Total	594,262,500	198,087,500	396,175,000	344.50	114.83	229.67	

Source: IMF staff estimates.

1/ Moldova's quota is SDR 172.5 million.

Table 10. Moldova: Disbursements Under the RSF Arrangement

		RSF Disbursements	
Availability date	Conditions for disbursement	SDR	Percent of Quota
December 6, 2023	Approval of the RSF Arrangement	-	-
March 24, 2024	Completion of RSF review conditional on reform measure 1 implementation	10,781,250	6.25
March 24, 2024	Completion of RSF review conditional on reform measure 10 implementation	10,781,250	6.25
March 24, 2024	Completion of RSF review conditional on reform measure 11 implementation	10,781,250	6.25
July 24, 2024 1/	Completion of RSF review conditional on reform measure 2 implementation	10,781,250	6.25
July 24, 2024 1/	Completion of RSF review conditional on reform measure 4 implementation	10,781,250	6.25
July 24, 2024	Completion of RSF review conditional on reform measure 5 implementation	10,781,250	6.25
July 24, 2024 1/	Completion of RSF review conditional on reform measure 7 implementation	10,781,250	6.25
January 24, 2025	Completion of RSF review conditional on reform measure 6 implementation	10,781,250	6.25
January 24, 2025	Completion of RSF review conditional on reform measure 8 implementation	10,781,250	6.25
January 24, 2025	Completion of RSF review conditional on reform measure 9 implementation	10,781,250	6.25
July 24, 2025	Completion of RSF review conditional on reform measure 3 implementation	10,781,250	6.25
July 24, 2025	Completion of RSF review conditional on reform measure 12 implementation	10,781,250	6.25
Total		129,375,000	75.00

Source: IMF Staff

1/ Expected to be completed at the time of the Third RSF Review.

Note: The RSF has a tiered interest rate structure that differentiates financing terms across groups of countries (Group A, B, and C) with lower income members benefiting from more concessional terms. Moldova is classified in Group B. For details of the RSF's tiered interest rate structure refer to the RST instrument (Attachment A, IMF Executive Board Decision No. 17231-(22/37) April 13,

Table 11. Moldova: Quantitative Performance Targets, December 2023–September 2025

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

	2023				2024														2025				
	December				March 1/				June				September 1/				December		March 1/		June		September 1/
	Prog. Target CR 23/6	Adj. Target	Actual	Status	Prog. Target CR 23/152	Adj. Target	Actual	Status	Prog. Target CR 23/428	Adj. Target	Actual	Status	Prog. Target CR 23/428	Adj. Target	Actual	Status	Prog. Target CR 24/208	Proposed	Prog. Target CR 24/208	Proposed	Prog. Target CR 24/208	Proposed	Proposed
1. Quantitative performance criteria 1/																							
Ceiling on the cash deficit of the general government	18,527	18,527	15,572	**Met**	4,580	4,580	2,342	**Met**	6,105	6,105	5,528	**Met**	9,281	9,281	5,622	**Met**	16,593	14,023	4,290	2,587	6,250	6,667	8,237
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) 2/	3,146	2,752 5/	5,432	**Met**	3,300	3,300	5,437	**Met**	3,538	3,538	5,316	**Met**	3,776	3,776	5,650	**Met**	4,014	4,814	4,077	4,877	4,141	4,941	5,041
2. Continuous performance criteria																							
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	**Met**	0	0	0	**Met**	0		0	**Met**	0	0	0	**Met**	0	0	0	0	0	0	0
3. Indicative targets																							
Ceiling on the general government wage bill	25,618	25,618	24,404	**Met**	6,275	6,275	6,408	**Not met**	14,032	14,032	14,165	**Not met**	20,417	20,417	20,162	**Met**	27,549 /6	27,828	7,250	6,860	14,833	15,210	22,513
Floor on targeted social spending undertaken by the general government 3/	5,989	5,989	4,897	**Not me**	2,694	1,268	1,435	**Met**	1,728	1,728	2,110	**Met**	1,807	1,807	2,433	**Met**	2,495	2,905	840	1,004	1,230	1,442	1,692
Floor on developmental spending undertaken by the general government 4/	34,940	34,940	44,246	**Met**	7,906	7,906	9,627	**Met**	17,436	17,436	20,742	**Met**	27,091	27,091	30,689	**Met**	41,191	41,703	9,461	10,051	21,560	21,471	34,061
4. Inflation Consultation Bands (in percent)																							
Outer Band (upper limit)	11.0	8.0			8.0	8.0			8.0				8.0				8.0	8.0	8.0	8.0	8.0	8.0	8.0
Inner Band (upper limit)	9.5	6.5			6.5	6.5			6.5				6.5				6.5	6.5	6.5	6.5	6.5	6.5	6.5
Center point	8.0	5.0	4.2	**Met**	5.0	5.0	3.9	**Met**	5.0		3.7	**Met**	5.0		5.2	**Met**	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Inner Band (lower limit)	6.5	3.5			3.5	3.5			3.5				3.5				3.5	3.5	3.5	3.5	3.5	3.5	3.5
Outer Band (lower limit)	5.0	2.0			2.0	2.0			2.0				2.0				2.0	2.0	2.0	2.0	2.0	2.0	2.0

1/ Indicative targets for March 2024, September 2024, March 2025 and September 2025.
2/ The NIR target is set as specified in the TMU.
3/ Includes Energy Vulnerability Reduction Fund (EVRF), heating allowance, payments under Ajutor Social and unemployment insurance programs.
4/ Includes health, educational, and infrastructure spending.
5/ In line with TMU ¶22.
6/ The IT ceiling is proposed to be revised to align with the approved budget.

Table 12. Moldova: Prior Actions and Structural Benchmarks Under the ECF/EFF

	Measure	Rationale	Timeframe	Status
Prior Actions				
1	Submit to Parliament a package of legislative amendments to strengthen the NBM laws in consultation with IMF staff and in line with the March IMF mission recommendations on (i) strengthening procedures related to changes in the members of decision-making bodies of NBM, including procedural safeguards, and introducing checks and balances; (ii) fine-tuning governance and decision-making structures of the NBM, especially the qualifications, membership, tenure, staggering and mandate of the executive and supervisory board members, and (iii) clarifying legal provisions on NBM's accountability to Parliament, and strengthening public communications.	Strengthen the institutional autonomy and governance of the NBM		**Prior Action**
Structural Benchmarks				
Anti-Corruption and Rule of Law				
1	Adoption of the law on establishment of anti-corruption adjudication infrastructure, including a credible selection process of anti-corruption judges , which will promote appointment of persons with impeccable reputation and high professional and moral qualities.	Strengthen anti-corruption institutions	end-September 2024	**Not met, reset to end-December 2024**
2	Adopt legal amendments to grant APO autonomy in hiring of staff		end-November 2024	**Not met, replaced by proposed new SB**
3	Ensure APO is operationally independent and with staffing autonomy by (i) amending the Superior Council of Prosecutors regulations to require APO's written opinion on shortlisted prosecutors prior to transfer or promotion to APO; (ii) ensure that APO will be sufficiently staffed with at least 70 percent of prosecutor positions and 70 percent investigator (including case officers) positions filled.		end-March 2025	**Proposed new SB**
Fiscal Governance				
4	Prepare a proposal identifying tax expenditures to be phased out based on cost-benefit analysis.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end- December 2024	
5	Presenting fiscal accounts in GFSM2014 format	Strengthen accuracy of general government data	end-April 2025	
6	With IMF TA, prepare a report summarizing the findings of a review of the legislative framework and practices of tax audit	Strengthen tax administration reforms and revenue mobilization	end-January 2025	
7	Develop a plan for modernization of tax audit in line with the findings of the report		end-April 2025	
8	Submit for public consultation a new Chapter III of the Moldova Tax Code, setting out a VAT framework that is simple, broad-based, and compliant with the EU VAT acquis.	Reduce distortions and raise revenue	end-September 2025	**Proposed new SB**
9	By end-September 2025, Cabinet will approve draft legislation to eliminate tax expenditures starting in January 2026, including by extending the tax base or revising preferential tax regimes, with the goal of raising at least MDL 900 million in additional annual revenue compared to current policy.		end-September 2025	**Proposed new SB**
10	MoF to approve a Roadmap for a comprehensive medium-term salary structure reform, to realign functions with positions, reduce the number of reference values, and evaluate the fiscal implications of such reform	Improve simplicity and fairness of salary structure	end-June 2025	**Proposed new SB**
Financial Sector Oversight				
11	The NBM will prepare and adopt the remaining necessary secondary legislation for Pillar II and III of Solvency II.	Facilitate implementation of the Solvency II insurance framework	end-September 2024	**Met**
12	Develop an inter-agency committee with a mandate to develop, implement, and monitor National Financial Inclusion Strategy (NFIS).	Improve financial inclusion	end-June 2024	**Met**
13	Submit to Parliament a package of legislative amendments to strengthen the NBM laws in consultation with IMF staff and in line with the March IMF mission recommendations on (i) strengthening procedures related to changes in the members of decision-making bodies of NBM, including procedural safeguards, and introducing checks and balances; (ii) fine-tuning governance and decision-making structures of the NBM, especially the qualifications, membership, tenure, staggering and mandate of the executive and supervisory board members, and (iii) clarifying legal provisions on NBM's accountability to Parliament, and strengthening public communications.	Strengthen the institutional autonomy and governance of the NBM	end-November 2024	**Not met, reset as prior action for the sixth review**
SOE and Regulatory Framework Reforms				
14	Develop a strategy for the all the SOEs at the central government level that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks, and (ii) a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss making.	Improve SOE governance and reduce fiscal risks	end-September 2024	**Not met, implemented with delay in November 2024**
15	With the help of Fund TA, enhance the SOE fiscal risk mitigation framework through (i) establishing regular conduct of SOE stress testing and if applicable use of other financial performance assessment tools, and (ii) defining enhanced processes to inform decision making.	Improve SOE governance and reduce fiscal risks	end-May 2025	**Proposed new SB**

Table 13. Moldova: RSF Reform Measures

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

Source: IMF Staff

Annex I. Risk Assessment Matrix

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Conjunctural Risks				
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**Short to Medium Term**	**High** • Disruptions in trade, including international sanctions put pressure on the current account and adversely affect net exports. • Further escalation of the war in Ukraine leads to new waves of refugee inflows to Moldova with additional pressures on the government budget. • Increasing uncertainty and confidence effects related to the war in Ukraine lead to leu depreciation, and possibly, system-wide deposit runs. • The government could face a tightening of financing constraints due to lower rollover rates.	• Advance structural reforms to improve competitiveness. • Ensure that the high-priority social spending is protected. • Monitor fiscal and financial sector risks closely. • Limit expenditures in line with available fiscal cash buffers and external financing. • Seek additional donor support.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**Short term**	**High** • The expiration at end-2024 of a gas transit agreement between Ukraine and Gazprom could significantly increase electricity prices. In Transnistria, gas and electricity price increases for households and businesses would have wider socio-economic consequences. • More generally, sharper-than-anticipated increases in international energy prices raise the cost of energy imports. Disruptions in energy supply and/or supply shortages from the energy market keep energy prices elevated. Further spikes in energy prices would lead to a rise in the cost of energy imports. A disruption of gas supply deliveries would force Moldova to replace the diminished volumes from the spot market at a much higher cost, while a broader supply shock could trigger significant challenges to identify alternative sources. Alternative electricity supplies in the region would also become capacity constrained and/or significantly more expensive. This may necessitate temporary rationing.	• Adjust local energy tariffs. • Implement measures to ration energy demand. • Draw down on stored gas. Secure alternative energy sources and suppliers. • Seek additional financing from external partners/donor support in case of large electricity prices increases. • Draw on the contingency buffer. Allocate additional budget resources to targeted measures that shield most vulnerable segments of the population through transparent processes. • Extend support to the energy regulator to ensure energy sector security. • Closely monitor inflation.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Social discontent. High inflation, real income loss, spillovers from conflicts (including migration) and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing.	**High**	**Short to Medium Term**	**High** • Economic activity and supply disruptions are likely if 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 the government's policy deliverables clearly to the general population and to economic agents, to ascertain credibility 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.
Global growth surprises: ***Slowdown.*** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. ***Acceleration.*** Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.	**Medium** **Low**	**Short to Medium Term**	**High** • An economic slowdown in Europe and key trading partners will weigh on Moldova, leading to a growth slowdown, further inflationary pressure, and weaker fiscal position. • Limited external financing. Further tightening of financing constraints could result in lower rollover rates. **High** • An economic acceleration in Europe and key trading partners will raise growth in Moldova and improve the fiscal position. • Easing external financing.	• Advance structural reforms to improve competitiveness. • Monitor fiscal and financial sector risks closely. • Limit expenditures to the extent that available fiscal cash buffers and external financing allow. • Ensure that the high-priority social spending is protected. • Seek additional donor support.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Monetary policy calibration. Amid high economic uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	**Medium**	**Short to Medium Term**	**High** • Inflation starts rising again due to mis-calibrated rate cuts, the NBM's credibility suffers, and inflation expectations start to de-anchor, hindering price stability objective.	• Closely monitor inflation. • Carefully calibrate policy decisions, particularly given high uncertainty. • Clear communication is key to continue to firmly anchor inflation expectations. • If tightening, implement support measures for the most vulnerable. • Further strengthen NBM independence to ensure monetary policy credibility and achieve policy objectives.
		Structural Risks		
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**High**	**Short to Medium 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. • Associated changes in global trade, remittances, and capital flow patterns could affect Moldova's economy and the balance of payments.	• Intensify reforms aimed at diversifying 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. • Maintain flexible exchange rate regime. • Seek additional support from external partners.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High**	**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 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. • Seek support from international and bilateral partners.
Climate change. Extreme climate	**Medium**	**Short to Medium Term**	**High**	• Intensify reforms aimed at diversifying the

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
events driven by rising temperatures cause loss of human lives, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.			• 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.	economy and improve competitiveness via structural reforms. • Invest in climate-related adaptative capacity. • Use monetary policy to address second round effects of commodity prices shocks.
Country-specific Risks				
Lack of consensus after the 2025 elections or the materialization of governance weaknesses or corruption vulnerabilities that could contribute to domestic populism and reform fatigue, 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.
Feedback loops from corporate balance sheets and spillovers from non-banks to banks, resulting from shocks to the energy and agricultural sectors.	**Medium**	**Short term**	**High** • A significant worsening of borrower balance sheets, concentrated in the energy and agricultural sectors would lead to rising NPLs. • Spillovers from the non-bank sector could further exacerbate stress in financial institutions.	• Follow standard procedures in place, including collateral enforcement and capital and provisioning buffers to absorb losses. • Strengthen monitoring of non-banks and stand ready to take necessary preventive regulatory measures should risks increase. • Implement policies to resolve insolvent non-bank entities.

Annex II. External Sector Assessment

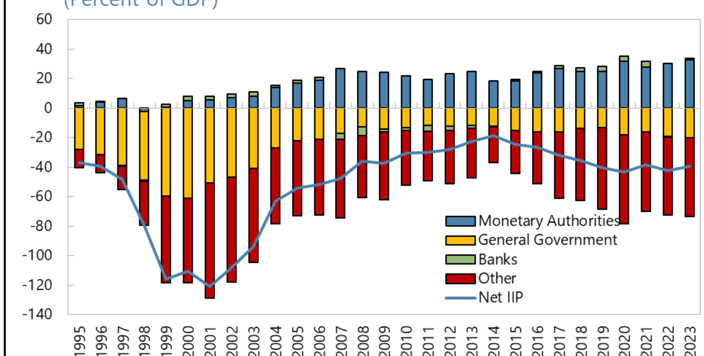
Overall Assessment: *Moldova's external position in 2023 was weaker than the level implied by medium-term fundamentals and desirable polices, an improvement compared to 2022. The current account deficit is projected to widen in 2024, reflecting a decline in export of goods and transfers. Gross official reserves are above adequate levels according to the IMF's reserve adequacy metric. External financing from official and development partners has remained robust.*

Potential Policy Responses: *To increase competitiveness of the economy, structural reforms should focus on strengthening governance, including in the fiscal sector and for SOEs, boosting investment in infrastructure, and improving access to finance and human capital. There is also a need to increase the scope of digitalization and diversify and increase the share of exports away from weather-dependent agriculture-based products. Improving the skills of Moldovan workers by adapting the education and training system to the labor market could boost productivity and enhance trade balance. Increasing private domestic investment while building up public savings will help to ensure sustainable and balanced growth and accelerate Moldova's income convergence towards European peers. Reforms under the RSF arrangement will also contribute to reducing energy-related vulnerabilities. Coordination with EU partners and improvements to the legal and institutional energy frameworks will help gradually improve energy independence.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Moldova's NIIP improved in 2023 (Figure 1) to -38 percent of GDP, from -41.5 percent in 2022. Gross assets totaled $7.5 billion, comprised heavily of official reserve assets and debt assets held by non-financial corporations, while gross liabilities totaled $14 billion, comprised primarily of FDI liabilities, liabilities of the general government, and liabilities of non-financial corporations. External debt stood at $10.4 billion at end-2023, up from $9.6 billion at end-2022, largely reflecting an increase in general government external borrowing, particularly from multilateral and official bilateral lenders.

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



Sources: IMF BOP; and IMF staff calculations.

Assessment. Moldova's external sustainability risk is contained and the external debt distress risk is low. Risks are reduced by the large share of gross liabilities to direct investors and of the general government, which is predominately to multilateral and official bilateral creditors.

2023 (% GDP)	NIIP: -38.5	Gross Assets: 43.9	Debt Assets: 11.4	Gross Liab.: 82.0	Debt Liab.: 62.4

Current Account

Background. The CA deficit narrowed to 11.9 percent of GDP in 2023 from 17.2 percent in 2022. This was driven by a significant improvement in net exports of goods and services, with a decline in merchandise exports more than compensated by a decline in imports. The income balances also improved, further helping to lower the CA deficit. However, it is expected to widen in 2024, due to a reduced export of goods and transfer. The CA deficit is projected to gradually improve toward 10 percent of GDP over the medium term, driven by a continued recovery in income balances and acceleration of services exports.

Assessment. Staff assesses the exchange rate to be overvalued based on two methodologies, suggesting that Moldova's external position at end-2023 was weaker than implied by the level of medium-term fundamentals and desirable policy settings. This assessment is significantly impacted by the shocks to Moldova's economy and external position in 2022. Two models are used to assess the degree of exchange rate misalignment. In the CA model, the negative output gap relative to the world in 2023 would have reduced the actual CA deficit by 0.5 percentage point of GDP, while natural disasters and conflicts elsewhere have a slight impact (0.1 percentage point of GDP). As such, the adjusted CA deficit is estimated at 12.3 percent of GDP.

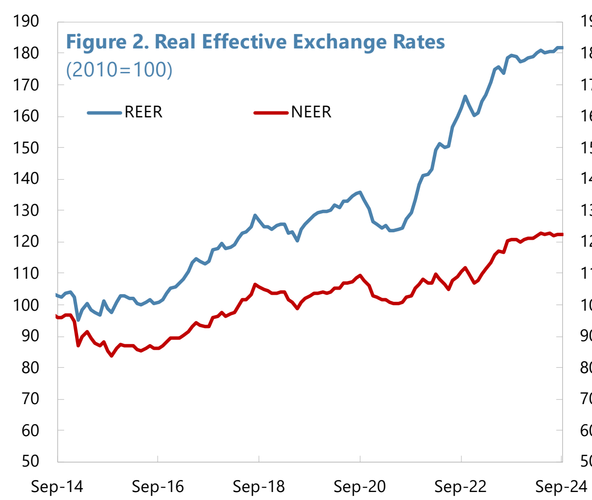
	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-11.9**	
Cyclical contributions (from model) (-)	0.5	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-12.3**	
CA Norm (from model) 2/	**-9.8**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-9.8**	
CA Gap	**-2.6**	**-12.5**
o/w Relative policy gap	4.0	
Elasticity	-0.3	
REER Gap (in percent)	**8.7**	**42.2**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

The CA norm—the level consistent with fundamentals and desirable policies—was estimated at -9.8 percent of GDP. This implies a model-estimated CA gap of -2.6 percent of GDP. The EBA-lite methodology identified a policy gap of 4 percent of GDP, primarily driven by a relatively tighter fiscal policy stance, lower public health expenditure, and stronger reserve accumulation in 2023.

Real Exchange Rate

Background. Both the real and nominal effective exchange rates continued to strengthen in 2023. (Figure 2). The nominal exchange rate of the MDL has strengthened by 9.1 percent against the USD and 5 percent against the EUR in 2023, amid overall FX surplus on the domestic market. In the first eight month of 2024, NEER and REER continued to strength but at a slower pace. Some nominal depreciation pressures at the beginning of 2024Q4 have been observed. External price competitiveness has also worsened. Unit labor costs in Moldova remain below those of its more advanced neighbors, but rising nominal wages, currency appreciation, and low productivity growth have eroded competitiveness. Unit labor costs (in real terms) rose by more than in most neighboring countries from 2019 to 2022. Additionally, the stronger exchange rate has eroded modest gains in Moldova's productivity relative to the EU average since 2008/09.



Assessment. Based on an elasticity of -0.3, the REER gap consistent with the staff assessed CA gap suggests an overvaluation of the leu of about 8 percent. The EBA-lite REER approach estimates a larger overvaluation of the leu of about 42 percent. Based on these metrics and given significant uncertainty due to spillovers from the war in Ukraine and the temporary spike in inflation, staff views the exchange rate to be overvalued by about 10 percent, half of the estimate for 2022.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial and capital account balance totaled 16 percent of GDP in 2023, unchanged from 2022, reflecting an increase in capital account but a decline in FDI inflows. FDI inflows declined in 2023 due to a fading of one-off reinvestment of earnings of large agricultural companies. Trade credits and currency and deposits, reflecting remittances and cash inflows, have supported the financial account. Official flows from multilateral and bilateral donors also increased substantially in 2022 in response to the war in Ukraine and have remained robust in 2023-24.

Assessment. The capital and financial account will continue to be supported by official flows, FDI, and short-term private flows. Continued multilateral and official bilateral support will be important to support external financing over the coming years.

FX Intervention and Reserves Level

Background. Gross reserves increased in 2023, boosted by significant official financing and an improved income balance. At end-December 2023, gross international reserves stood at $5.4 billion, up from $4.5 billion in 2022. During 2023, NBM net foreign exchange purchases were about $360 million, consistent with the appreciation pressures on the exchange rate and partly due to improved net exports of good and services. No foreign exchange sales were conducted in 2023. In the first 3 quarters of 2024, the demand and supply in the local FX market were close to equilibrium, although there were periods when the demand for FX exceeded the supply, resulting in modest depreciation or appreciation pressures. Net FX supply from individuals increased by 10 percent, while the net demand from businesses rose by 24.4 percent. As a result, the NBM intervened in the local FX market to smooth exchange rate volatility in line with their FXI strategy, with net purchases of $5 million. FX market interventions resumed at end-October and intensified in the aftermath of the US presidential elections as depreciation pressures increased.

Assessment. End-December 2023, gross international reserves stood at over 6 months of imports or 200 percent of the Fund's composite reserve adequacy metric. Gross reserves are projected to remain stable at over 6 months of imports of goods and services in 2024, and moderate slightly to about 5 months of imports in the medium term, while still remaining above the Fund's composite reserve adequacy metric.

Appendix I. Letter of Intent

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

Chişinău, Moldova
December 2, 2024

Dear Madam Managing Director:

1. The attached documents provide updates to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) of June 13, 2024. The updated MEFP reports on recent economic developments, reviews progress in implementing Moldova's program under the Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangements and the Resilience and Sustainability Facility (RSF) arrangement, and sets out macroeconomic and structural policies that we plan to implement going forward, including to address significant climate-related challenges.

2. After a weak recovery in 2023, growth accelerated to 2.2 percent y-o-y in 2024H1, and is projected to reach 2.6 percent in 2024, supported by continued recovery of investment and private consumption on the back of rising real wages and strong credit growth. Growth is projected to further strengthen in 2025 and the medium term. Inflation has stabilized, after a period of high inflation, and remains within the National Bank of Moldova's (NBM) 5 ± 1.5 percent tolerance band. The outlook remains subject to significant uncertainty, with large downside risks.

3. Despite the difficult environment, our IMF-supported programs remain broadly on track, although with delays on structural reforms.

- We met all the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-June 2024, with the exception of the IT on the ceiling of the general government wage bill, which was missed by a small margin due to unexpected payments from the reorganization of assistance programs and new regulations that limit the carryover of unused leave.
- We met two structural benchmarks (SBs) for this review: (i) on setting up an inter-agency committee with the mandate to develop, implement, and monitor the National Financial Inclusion Strategy (end-June), and (ii) on adoption of secondary legislation for Pillars II and III of Solvency II (end-September). The end-September SB on advancing SOE reform was implemented with delay in November. The end-November SB on submission to parliament of legislative amendments to strengthen NBM's autonomy and governance is delayed by a few days and will be completed as a prior action for this review. The end-September SB on adoption of the law on the establishment of the anti-corruption adjudication infrastructure was not met,

reflecting the complexity and need for intense consultations. We request to reset this SB to end-December. We are unable to meet the end-November 2024 SB on increasing the staffing autonomy of the Anti-Corruption Prosecutor's Office (APO) required to promote its operational independence. Upon review, it is our position that allowing APO to have a role in transfer and promotion of prosecutors to APO, even in an advisory role, is unconstitutional, and we do not find it feasible to allow APO to hire its own investigators. We therefore propose a new, reformulated benchmark that would achieve the same objective (see below).

- We met RM5 of the Resilience and Sustainability Facility (RSF) program by delinking the provision of support under the Energy Vulnerability Reduction Fund (EVRF) from energy consumption by moving from in-bill subsidies to targeted cash transfers, in time for the current heating season. Three RMs are delayed but will be finalized in the coming months: (i) the approval of the Disaster Risk Management (DRM) program (RM2), (ii) the assessment of the cost-recovery rate for the provision of electricity and natural gas (RM4), and (iii) the inclusion of climate change impact assessments in our project appraisals (RM7). We expect to complete these RMs by the Third Review under the RSF arrangement.

4. Reflecting our continued strong commitment to program objectives, we propose to set four new SBs that comprise: (i) drafting and presenting for public consultation legislation setting out a new VAT framework that is simple, broad based, and compliant with the EU acquis (end-September 2025); (ii) adopting at Cabinet level draft legislation to extend the tax base and eliminate tax expenditures starting in January 2026 (end-September 2025); (iii) preparing a roadmap for a medium-term comprehensive salary structure reform that realigns functions with positions, reduces the number of reference values, and evaluates the fiscal implications (end-June 2025); and (iv) improving the framework on SOE fiscal risk mitigation by establishing regular conduct of the SOE stress testing and, if applicable, use of other SOE financial performance assessment tools, and defining enhanced processes to inform decision-making (end-May 2025).

5. We remain committed to strengthening APO and propose to set a new commitment to replace the missed November 2024 SB, aiming to address the same objective, and formulated as follows: (i) amend the Superior Council of Prosecutors regulations to require APO's written opinion on shortlisted prosecutors prior to transfer or promotion to APO; and (ii) ensure that APO will be sufficiently staffed with at least 70 percent of prosecutor positions and 70 percent of investigator positions filled (end-March 2025). We will provide APO separate functional premises in December 2024.

6. To support our ongoing efforts, we request the completion of the Sixth Review of the ECF/EFF program and the release of the eighth tranche in the amount of SDR 100.6 million (SDR 19.05 million under the ECF and SDR 81.55 million under the EFF), approximately US$134 million, to be used as budget support. We believe that the policies outlined in the accompanying MEFP are sufficient to meet our program's objectives.

7. To support our ambitious agenda to address climate challenges and facilitate efforts to catalyze climate finance from other official and private partners, we are also requesting the

completion of the Second Review under the RSF, with an accompanying disbursement worth SDR 10.78125 million (approximately US$15.2 million). A comprehensive reform package is outlined in the attached MEFP.

8. We are also requesting the modification of (i) the end-December 2024, end-March (IT), and end-June 2025 ceiling on the cash deficit of the general government, to reflect higher-than-projected revenue outturns, and the need of additional electricity buffer and revised forecast, respectively, and (ii) the QPC on the floor on net international reserves of the NBM for end-December 2024, end-March (IT) and end-June 2025, to reflect the high level of NIR.

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

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

Sincerely yours,

/s/

Dorin Recean
Prime Minister

/s/

Victoria Belous
Minister of Finance

/s/

Anca Dragu
Governor
National Bank of Moldova

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

Attachment I. Memorandum of Economic and Financial Policies

I. Macroeconomic Developments and Outlook

1. **Russia's ongoing war in Ukraine continues to cast a shadow over Moldova's economic and social environment.** While we successfully tackled multiple external shocks, the recovery is slower than expected, amidst persistent uncertainty related to the proximity to the war and Russia's continued presence in the breakaway region of Transnistria. Moreover, the continued influence of vested interests and risks from sporadic protests are undermining the fragile social fabric and political stability throughout the 2024–25 electoral cycle. Against this backdrop, the government continues to prioritize strengthening state institutions, supporting economic recovery, enhancing contingency planning, and reinforcing state security, although heightened risks create significant challenges in shaping and executing policies.

2. **We have managed to safeguard energy security so far, but risks remain.** We have successfully diversified our sources of gas supplies and decoupled from dependency on Gazprom. In line with the contingency plans, this was achieved by leveraging fiscal buffers and EBRD credit lines. We are continuing re-stocking our gas reserves. However, risks remain in the electricity sector due to dependency on electricity supplies from the MGRES power plant in Transnistria. During January—August 2024, MGRES provided about 70 percent of the total electricity demand, while the rest was contracted from domestic sources, Ukraine, Romania and the OPCOM exchange. There is a risk that electricity supplied comes at higher cost, depending on the outcome of how gas continues to be supplied to MGRES for electricity generation following the expiration of the Ukraine-Gazprom agreement at end-2024.

3. **We are also continuing to provide significant support to refugees from Ukraine.** Since last year we have seen the number of refugees from Ukraine increase to about 118,000 as of April 2024, from about 100,000 a year ago. Partnering with international organizations, we have aimed for a "whole of society" approach, supporting both refugees and the most vulnerable local families, including those hosting refugees. At the same time, national systems were strengthened, including to improve the quality and efficiency of the asylum system and the implementation of the Temporary Protection regime, to open pathways to the longer-term inclusion of refugees into national systems. Key challenges remain, however, including securing sufficient budgetary resources to include refugees in social services, ensuring sufficient governmental systems and personnel are in place to handle the increased caseload, and acquiring the necessary financial and technical support from donors for the longer-term inclusion of refugees.

4. **The economic recovery is taking longer than initially anticipated, and modest growth is expected this year.**

- ***Growth***. After weak recovery in 2023, growth has picked up to 2.2 percent y-o-y in 2024H1, reflecting improved investment and modest consumption growth. We project economic activity to grow by a modest 2.6 percent in 2024, as the gradual recovery of investment and private consumption continues. The latter is supported by rising real wages and strong credit growth and contributes to import growth which is overall flat on falling re-exports to Ukraine. In contrast, exports remain weak.

- ***Inflation***. After declining rapidly in 2023, headline inflation has stabilized, remaining broadly within the National Bank of Moldova's (NBM) tolerance band of 5+/-1.5 percent since October 2023. After hitting the lower end of the target band in April on account of declining food and regulated prices, headline inflation has increased slightly above the center of the band. Core inflation remains above headline inflation with little signs of slowing.

- ***Fiscal position.*** The fiscal deficit was smaller than envisaged in 2024H1, on account of stronger revenue collection—mostly PIT and social security contributions, due to stronger than expected wage growth—and lower than expected capital spending.

- ***External.*** The current account deficit widened to 14.3 percent of GDP in 2024H1, reflecting lower exports (re-exports of minerals to Ukraine but also exports of locally-produced goods, vegetable, and oils). Gross foreign exchange (FX) reserves continued to build up, reaching USD 5.7 billion at end-September; at over 6 months of import coverage, they provide adequate cushions against external shocks.

- ***Monetary and financial policies.*** After a strong disinflationary outlook and weak growth has led to an easing of the monetary policy stance, we cut our policy rate from the peak of 21.5 percent in November 2022 to 3.6 percent in May 2024, and have kept it unchanged since then. We also lowered slightly the MDL and FX reserve requirements since May. The financial sector continues to show resilience, with deposits and liquidity buffers exceeding pre-war levels. Credit growth has recovered with consumer credit to households and mortgages growing at 21 and 19 percent, respectively, between January and August while non-performing loans (NPLs) remained broadly stable at 4.5 percent in August.

5. The outlook is subject to significant uncertainty with large downside risks. Further escalation of the war leading to new waves of refugee inflows to Moldova, or a deterioration of security and economic conditions could put additional strain on public finances, undermine confidence and exert pressure on the exchange rate. New energy shocks, particularly related to the expiration of the Ukraine-Gazprom agreement, could aggravate Moldova's economic outlook, creating fiscal and balance of payments pressures, weaker consumption, and output losses; and further upset the fragile social fabric. Risks of deterioration of the political environment could slow the ongoing reform momentum, while insufficient progress on anti-corruption and governance reforms would undermine growth prospects. Extreme weather events pose significant risks to the energy and agricultural sectors. However, a stronger rebound in economic activity of trading partners presents upside risks to the outlook.

6. **Also, faster-than-expected progress towards EU accession will support medium-to-long-term growth.** Based on the recommendations of the European Commission (EC) presented in the Enlargement Report, the European Council decided in December 2023 to open accession negotiations with Moldova. The screening process for Moldovan legislation with the EU *Acquis Communautaire*, which identifies key reform priorities and benchmarks based on which the EC decides on opening negotiations for specific chapters, is ongoing. As Public Finance Management, part of Public Administration Reform, is one of three key reform pillars in the accession process, and public procurement and financial control are among the fundamental ones, it is expected that these chapters/clusters will be opened first for the negotiations. In January 2024, the Government of the Republic Moldova submitted to the EC its first Economic Reforms Program for 2024–2026, which is a planning document prepared by EU candidate countries for their participation in the EU's economic policy coordination procedures. After the revision of the document, the policy guidance for Moldova, reflecting the most pressing economic reform needs, was approved in May 2024 during the Economic and Financial Committee, a high-level meeting involving enlargement countries, EU Member States, the EC, and the European Central Bank. EU accession negotiations started formally in June 2024 with the adoption of the Negotiating Framework.

II. Program Developments

7. **Our program implementation appears broadly on track although with delays on structural reforms.** We met all the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-June 2024, with the exception of the IT on the general government wage bill which was missed by a small margin due to unexpected payments resulting from the reorganization of social assistance programs, new regulations that limit the carryover of unused leave, and bonus payments. We met two structural benchmarks (SBs) for this review: (i) we set up an inter-agency committee with the mandate to develop, implement, and monitor the National Financial Inclusion Strategy (NFIS), and (ii) the NBM prepared and adopted the remaining necessary secondary legislation for Pillar II and III of Solvency II. However, we will submit to Parliament the package of legislative amendments to strengthen the NBM law with delay, missing the end-November 2024 target, to be completed as a prior action. We also missed the end-September structural benchmark on adoption of an anti-corruption adjudication infrastructure law, due to the complexity of the law and extended discussions in parliament. The benchmark is proposed to be reset to end-December 2024. We also implemented with delay, in November 2024, the end-September structural benchmark on development of the strategy for all the SOEs at the central government level, which includes a framework for monitoring financial performance and mitigating related fiscal risks and a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss making. We are unable to meet the structural benchmark on increasing the staffing autonomy of the Anti-Corruption Prosecutor's Office (APO) required to promote its operational independence. Upon review, it is our position that allowing the APO chief to have a role in the transfer or promotion of prosecutors to APO, even in an advisory role, is unconstitutional. We also do not find it feasible to allow APO to hire their own investigators. We are proposing to set a new, reformulated structural benchmark for end-March 2025 that would achieve

important steps towards the same objective. On the Resilience and Sustainability Facility (RSF), we have delinked the provision of support under the EVRF from energy consumption by providing targeted cash transfers to beneficiaries from the 2024–25 heating season onwards, with payment provision administration relocated from energy providers to the Ministry of Labor and Social Protection, to ensure that energy price signals are fully preserved and to incentivize efficient energy consumption (**RM5**). We are also working on finalizing three further reform measures that were due for this review but are delayed: (i) the Disaster Risk Management (DRM) program that covers the full spectrum of the Sendai framework and defines an institutional framework with clearly assigned roles and responsibilities at the national and subnational level, including assigning the role for DRM coordination and strategic planning under the Office of the Prime Minister, e.g., to the National Committee for Climate Change (**RM2**); (ii) the determination of the cost-recovery rate for the provision of electricity and natural gas (fully reflecting operational and capital cost), including identification of any discrepancy between tariff and so defined cost recovery (considering tax expenditures), a distributional impact assessment, and closure of any gap by adjusting the tariff or by compensating the operating company transparently from the budget (**RM4**); and the adoption of legislation and methodologies to include climate change impact and vulnerability assessments in project appraisals (**RM7**). We will complete these three RMs in time to be assessed at the Third Review under the RSF arrangement.

8. On March 31, 2023, we created an escrow account at the NBM and deposited the outstanding amounts to service the external debt owed to official creditors that cannot be paid due to factors outside of our control, as specified in the Technical Memorandum of Understanding (TMU). These obligations stem from old commercial debt contracted in 2001, with the current amount outstanding at around USD 14.6 million from a USD 91 million total. The escrow account fulfills the following conditions: (i) no third party (including the Treasury or the Ministry of Finance) has access to the funds deposited on the account; (ii) funds deposited on the account can only be used to service the related debt, according to the repayment schedule and in line with international sanctions; and (iii) funds accumulated on the account can only be transferred back to the Ministry of Finance if there is legal evidence of an agreement to service the debt through other instruments or if funds need to be transferred to another account with the same purpose.

III. Policy Framework

A. Fiscal Policy

9. The 2024 budget supported growth enhancing reforms while providing moderate consolidation in line with the IMF's macro-framework. It prioritized better-targeted social assistance and strengthened social safety nets, enhancing energy security, and supporting private sector development while promoting infrastructure investment in line with budget execution. To safeguard social protection, we indexed pensions by 6 percent, in line with the indexation formula, which refers to the end-year inflation, and adds a fixed component equal to the average pension amount multiplied by 50 percent of real growth. At the end of July, we approved a supplementary budget to reflect additional external financing availability, reallocate spending informed by budget execution, increase the allocations for the Road Fund and Regional Development Fund and the EVRF, while maintaining contingency buffers.

10. We prepared a second supplementary budget in November to reflect stronger-than-expected revenue outturns and allow for some adjustment of spending envelopes. The deficit decreased by around MDL 2.5 billion relative to the July budget due to an upward revision of revenues, largely driven by unexpected wage and tobacco and vehicle import growth, while total spending remained broadly unchanged. The supplementary budget increased allocations to the Health Fund by MDL 550 million to account for unexpected contributions recorded on the revenue side, thus retaining net transfers to the Fund unchanged. In addition, it increased the allocation for wage payments by around MDL 400 million, partly reflecting mandatory payments resulting from a reform of social assistance programs and partly reflecting precautionary efforts (MDL 165) to reduce the stock of paid leave entitlements, a liability that is set to increase with average wage growth. Moreover, we added allocations for road infrastructure investments by around MDL 460 million. Due to an under-execution of other current spending lines (around MDL 850 million) and an under-execution of capital spending (MDL 100 million), total expenditures remained slightly below the July budget.

11. The 2025 budget prioritizes capital investments and contains current spending to support growth while preserving fiscal sustainability. Pensions will be indexed as mandated by law and we will approve moderate increases of wages in the education and health care sectors, and increases of minimum salaries and basic reference values. Procedural reforms in the Ministry of Infrastructure will enable improved implementation of capital projects. In addition, we anticipate additional spending to reduce the stock of paid leave entitlements. We also include an electricity shock contingency buffer of MDL 600 million (0.17 percent of GDP), which is calibrated to cover a possible increase in electricity prices for the end consumers up to 50 percent compared to December 2024, subject to price changes resulting from increased cost of purchased electricity. We commit to use the buffer proportionately to the electricity price increases, and to seek additional support from external partners, should the prices rise above 50 percent. The buffer is earmarked for additional support to households and to cover higher electricity costs in government buildings. Overall, these policies will result in a moderate reduction of total spending as a percent of GDP. Approved tax policy measures, including an increase in the basic allowance of the individual income tax to compensate inflationary effects, the introduction of new allowances for education and insurance expenses, and increases in excise taxation, will reduce revenue collections somewhat. However, increased wage payments will offset that effect, resulting in overall revenue growth in line with GDP. As a result, the overall deficit will decrease slightly, in line with the envisioned consolidation path.

12. The 2025 budget supports our medium-term goals, as formulated in the medium-term budget framework (MTBF). The MTBF for 2025–2027, approved in August 2024, targets a reduction in the general government deficit to 3.1 percent of GDP by 2027, anchoring the total public debt to GDP ratio below 45 percent to retain sufficient buffers against contingent liability risks and shocks. This will be underpinned by reforms to mobilize domestic revenues, improve tax administration, and promote sustainable development-focused spending. We aim to enhance spending efficiency, develop the domestic capital market, and strengthen fiscal governance and transparency.

13. The risks around the baseline are high, particularly with existing security threats and an uncertain energy outlook. Accordingly, we continue to update our contingency plans and policies in consultation with the IMF to the evolving risk landscape. Should these risks materialize (¶5), we will also seek additional financial support from our partners in the form of grants and concessional loans.

Reforms to Strengthen Revenue Mobilization

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

- **Streamline the design of our major taxes.** We recognize that our tax system has suffered frequent isolated changes that over the years led to a buildup of inefficiencies and complexities. With the help of IMF technical assistance, we have conducted a comprehensive diagnostic of the Moldova Tax Code to assess the interlinkages and consistencies between tax policy and revenue administration. The findings indicate that both consumption and income-based taxes suffer from gaps that reduce the efficiency and fairness of the tax system. To support growth, we will draft and present for public consultation a new Chapter III of the Moldova Tax Code, setting out a new VAT framework that is simple, broad-based, and compliant with the EU VAT *acquis* (**new end-September 2025 SB**).

- **Streamline tax expenditures.** We recognize that selective tax reductions for some businesses, or some goods and services, increase the complexity of the tax system, can invite avoidance if poorly designed, and are often an inefficient instrument to pursue social objectives. We initiated a reform of the tax incentive regime, starting with a review of existing tax expenditures (end-December 2023 SB, met). To improve the simplicity and fairness of the tax system, we will conduct a cost-benefit analysis to identify the least efficient and effective tax expenditures (**end-December 2024 SB**). By end-September 2025, Cabinet will approve draft legislation to eliminate tax expenditures starting in January 2026, including by extending the tax base or revising preferential tax regimes, with the goal of raising at least MDL 900 million in additional annual revenue compared to current policy (**new end-September 2025 SB**).

- **Continue strengthening revenue administration.** We will continue to enhance the capacity of the State Tax Service (STS) in line with IMF TA, including the Tax Administration Diagnostic Assessment Tool (TADAT) recommendations, by: (i) building a comprehensive compliance risks management process with a functioning governance framework in the STS that is able to detect and effectively address the biggest tax revenue risks; (ii) investigate and refer tax crimes for prosecution by signing relevant protocols, addressing gaps in legislation, and organizing training and technical assistance from external partners; (iii) enhancing voluntary tax compliance; and (iv) launching the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes by end-2024. We are extending the scope of the automated tax filing compliance program, which currently covers VAT and excises, and aim to include employers' personal income tax reporting by end-2024. With IMF technical assistance, we will prepare a report summarizing the findings of a review of the legislative framework and practices of tax audit (**end-January 2025 SB**), that will serve as basis for the development of a plan to modernize the tax audit function (**end-April 2025 SB**). Furthermore, having become a member of the OECD's Inclusive Framework this year, we are committed to implementing the BEPS Minimum Standards in a timely manner and will publish a roadmap for their adoption this year.

- **Continue actions towards reduction of global greenhouse gas (GHG) emissions.** Leaded fuel excises are adjusted annually by nominal GDP growth with a view to converge towards minimum EU levels by 2027. After the energy uncertainty subsides, we will step up our work on the revision and improvement of the taxation system in line with national, regional, and international commitments on GHG emissions, following a thorough assessment of social and economic considerations.

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

- **We will leverage the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) focusing on tax compliance as a predicate offence for AML and in line with the outcomes of the National Risk Assessment.** Existing AML/CFT tools, such as screening of cross-border financial flows and reporting of suspicious transactions, can be used to facilitate detection and enforcement of tax offences and incidences of abusive profit shifting (including to non-transparent offshore jurisdictions), and to trigger tax controls. In this regard, we aim to improve the exchange of information between authorities and development and dissemination of financial intelligence, strengthening the cooperation between the tax authority, Financial Intelligence Unit, NBM and law enforcement bodies, with an additional focus on cross-border tax offences.

Reforms to Improve Budget Quality and Fiscal Transparency

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

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

- **Improve the credibility of the Medium-Term Budget Framework (MTBF).** Our budgets are currently subject to under-execution and deviations from planned expenditures. We are working with line ministries to improve coordination and address bottlenecks in budget execution, and we aim to limit the number and scope of supplementary budgets and introduce a transparent contingency reserve. We have started the process of preparing fiscal accounts in GFSM2014-compliant format to expand the coverage of general government statistics and address expenditure classification issues. We aim to present fiscal accounts for 2023 in the GFSM2014 format (**end-April SB 2025**) with IMF technical assistance. With IMF technical assistance, we will also seek to strengthen the MTBF preparation and implementation process. We aim to establish binding (for the first budget year) and indicative (for the following two years) multiyear expenditure limits. A stronger MTBF will ensure that citizens are aware of the full multiyear fiscal impact of new policies and their effect on long-term fiscal sustainability and will also serve as an early warning system to take corrective action when needed.

- **Implement the Public Finance Management (PFM) Strategy.** In February 2023, we approved the strategy to strengthen PFM systems for 2023–30, which is based on PEFA 2022 findings. The strategy aims to improve budgeting processes and increase public finance efficiency, performance, and transparency, facilitating the EU accession. Building on the Strategy, we have prepared three core policy documents to operationalize it: (i) action plan for 2023–2025, which includes detailed measures and costs, approved in December 2023, (ii) Public Procurement Development Program 2023–2026, approved in August 2023, and (iii) Program on Public Internal Financial Control Development 2024–2027, approved in March 2024. At the same time, aiming to modernize budgetary processes, and improve control and transparency over public finances in line with the PFM Strategy, using single information environment and fostering digitalization, we approved the Concept Document on PFM integrated IT system in May 2023.

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

- **Enhance disclosure and the management of fiscal risks.** We have made progress in identifying and reporting fiscal risks and published a fiscal risk statement as an addendum to our budget documents starting in 2018. In 2020, we expanded it to include key public private partnerships

(PPPs), large state-owned enterprises (SOEs), and government guarantees including the Prima Casa housing support program. With the help of EU technical assistance, we have applied a new methodology to assess fiscal risks from a sample of SOEs, while we plan to extend coverage to other SOEs, including operating in the energy sector. We plan to expand coverage of the Fiscal Risk Statement to include climate hazard risks (section F). We will continue to improve the coverage, monitoring, inter-agency coordination, and reporting quality of contingent liabilities in our fiscal risk statements going forward (see SOE reforms, section D).

- **Strengthen debt and cash management.** Despite recent progress, especially with respect to data quality and inter-agency coordination, financial instruments are limited and concentrated in short-term maturities, and the government securities market remains shallow. To deepen the debt market for government securities and facilitate domestic financing, we successfully issued a 10-year domestic bond in September 2023. In July 2024, we launched the eVMS.md platform, designed to provide retail investors with direct and easy access to the government securities market. The first subscription through the eVMS.md platform ran from September 16 to September 25, 2024. During this period, a total of 815 transactions were recorded, reaching MDL 78.7 million. Notably, demand exceeded supply by 57.4 percent, highlighting a strong investor interest and confidence. We will strengthen our operational capacity and our cash management practices, take steps to further develop the primary dealer system, improve inter-agency coordination, and take steps to support external investors' ability to access the domestic government debt market. To preserve debt sustainability, our borrowing strategy will prioritize grants and donor financing on concessional terms.

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

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

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

- **We are strengthening our public investment management (PIM) framework to enhance the sustainable execution and quality of public investment and close infrastructure gaps.** Guided by the 2019 Public Investment Management Assessment (PIMA) report recommendations, and the 2023 Climate Public Investment Management Assessment (C-PIMA), we are strengthening the planning, allocation, and implementation stages of our PIM cycle, taking into consideration climate and environmental implications (reform area RM7-9, section F). Since 2024, we apply Regulation 684, which requires climate-change impact and vulnerability assessment for the identification, evaluation, approval, and monitoring of investment projects considered for funding under the MTBF and State budget. Building on this progress, we are developing a registry of investment projects approved for implementation by the State budget, externally funded projects, and developmental funds, and we will make all supporting documentation public by July 2025.

- **Strengthen the unitary pay system in the budgetary sector.** We plan to reform the public salary structure, based on a common understanding among all stakeholders, and affordability. As a first step toward this objective, we will leverage technical assistance to prepare a roadmap for a comprehensive medium-term salary structure reform to contain wage bill pressures, while ensuring efficient service delivery. The Ministry of Finance will approve a roadmap to realign functions with positions, reduce the number of reference values, and evaluate the fiscal implications of such reform (**new end-June 2025 SB**). The analysis will look at the unitary pay system in the budgetary sector, with a medium-term perspective synchronized with the MTBF process, to improve the wage-compression ratio and address critical staffing needs. Going forward, salary increases will take into account a well-defined set of criteria, aligning titles and functions.

- **Ensure the sustainability of the pension system.** Our pension system has significant challenges, including a narrow contribution base, an ageing population, and falling replacement ratios. To overcome these challenges, we are advancing with our reforms to boost employment and reduce informality in the labor market, including by broadening the contribution base.

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

- **Improve the design of the energy vulnerability reduction fund (EVRF).** The EVRF, launched for the 2022–23 heating season, continues to provide an important support for the most vulnerable. Ahead of the 2023–24 winter season, we consolidated the two energy poverty reduction schemes, the APRA (heating support assistance) and the EVRF, to deliver a joint benefit to households. We improved the targeting of the program, by increasing the number of energy vulnerability categories and the threshold, and providing compensations for the main energy source of residential heating. More than 770,000 households (65 percent of Moldovan households) benefited from energy bill support in the 2023-24 heating season. Going forward, for the 2024–2025 winter season we replaced in-bill support with cash transfers to continue to provide targeted support while ensuring that energy consumption is not incentivized by the compensation system (section F).

- **Strengthen gender equality efforts.** Despite improvements in the last two years, labor force participation remains lower for women at 55 percent compared to 62 percent for men, while wages for women are on average 13.7 percent lower than for men due to education, age, and working-time differences. Recognizing the importance of increasing female participation and employment, we introduced flexible work arrangements, promoted legislation and regulation of alternative childcare services, and expanded childcare services. Going forward, we will work on further improving access to childcare to facilitate faster reintegration of women into the workforce following maternity leave. We will also work with the UN agencies to build capacity for incorporating gender equality into the broader PFM reform agenda by providing guidelines to line ministries for tracking and reporting gender sensitive information.

B. Monetary Policy

17. The NBM stands ready to adjust its monetary policy stance consistent with its inflation targeting framework. Our monetary policy decisions continue to depend on the inflation outlook and adjustments are guided by the 12–24-month inflation forecasts, with the objective of keeping inflation within the tolerance band. Conditional on inflation remaining within our target band, our monetary policy will also be supportive of economic recovery.

- ***Policy rates.*** Forward-looking and data-dependent monetary policy helped to contain the second-round effects of inflation and anchor expectations. After peaking in October 2022, headline inflation started to decline sharply, stabilizing within the NBM target band since October 2023. Core inflation has increased, but has been compensated by lower regulated prices. The NBM started an easing cycle in December 2022, gradually reducing the policy rate from 21.5 percent to 3.6 percent in May 2024, and keeping it unchanged since then. The NBM also gradually relaxed bank reserve requirements in domestic currency and FX to 27 and 36 percent, respectively. Our future policy rate decisions will be carefully calibrated and guided by a frequent assessment of the inflation outlook, as well as thorough analysis of the balance of risks, given the highly uncertain environment. We will also continue reviewing the setting of other policy tools, and gradually normalize reserve requirements, to further support private sector credit.

- ***Foreign exchange interventions.*** The Moldovan leu moved sideways against both the US dollar and the euro between December 2023 and September 2024; while gross foreign exchange reserves increased to about USD 5.7 billion by end-September 2024, more than reversing the losses at the onset of the war. The NBM stands ready to allow necessary exchange rate adjustment and will continue to manage reserves conservatively and limit interventions to counteracting excessive exchange rate volatility, following a rule-based approach, while also actively communicating its intervention strategy to the market.

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

C. Financial Sector Policies

18. The banking sector remains resilient, but risks persist. Banks continue to be adequately capitalized with aggregate capital adequacy at 27 percent as of end-August 2024, while nonperforming loans declined to 4.5 percent of total loans. The liquidity coverage ratio, at 292 percent, exceeded the prescribed 100 percent limit by a large margin reaching its pre-war level. Total deposits have been gradually increasing, currently about 38 percent above the pre-war level, while the share of FX in total deposits marginally declined to 35.5 percent. Profitability remained strong, although it recently declined as a result of monetary policy normalization which has reduced net interest margins. Return on equity and return on assets were 14.8 percent and 2.4 percent, respectively, at end-August. Geopolitical and macroeconomic risks remain high and were they to materialize they might translate into weaker profitability and deposit outflows.

19. Bank lending to households continues to recover after a significant contraction in 2022/23, and we monitor the potential buildup of systemic risk. The growth rate of household lending accelerated since Q3 2023, as a result of easing monetary policy conditions, easing of lending standards, and base effects. On the other hand, less than complete pass-through of lower policy rates to lending rates and weak demand amid uncertain economic outlook have contributed to the slow credit growth to businesses. Regulations for responsible lending and the imposition of loan-to-value (LTV) threshold of 80 percent and a debt service-to-income (DSTI) threshold of 40 percent were effective. We will complete the unification of the regulation between banks and non-banks, and we have been assessing their initial calibration. Despite the rapid growth in house prices, we plan to keep the LTV ratio at its current level while an adjustment of the DSTI is under consideration. With bank credit growth below its long-term trend, we maintained the counter-cyclical buffer rate at zero, and the systemic risk buffer at one percent. In October 2023 we released the systemic risk buffer for household exposure driven by the improvement of credit quality indicators of households and the disinflationary conditions with less negative impact on the real income of the population. The planned IMF Financial Sector Assessment Program (FSAP) starting in early 2025 will help us take stock of progress in our reforms in the financial sector.

20. We remain committed to further strengthening the institutional autonomy and governance of the NBM, in consultation with the IMF. The NBM's independence remains critical for ensuring monetary policy credibility and effectiveness, and for preserving macroeconomic and financial stability. In that respect, a package of amendments was adopted on July 11, 2024. This package includes: (i) granting the NBM operational autonomy over its assets; (ii) adjusting the administrative procedures code to eliminate inappropriate deadlines for the NBM supervision; and (iii) adding an explicit mandate for financial stability and macroprudential policy of the NBM. Furthermore, in line with the recommendations of the March 2024 IMF mission on autonomy and governance of the NBM, and in consultation with IMF staff, we will present to Parliament a set of amendments to the NBM law to further strengthen the autonomy and governance of the NBM (**end-November 2024 SB, to be completed as PA**). These amendments include strengthening appointment and dismissal procedures, the latter by introducing a double veto and explicit procedural requirements; and reforming NBM governance and decision-making structures, especially qualifications, membership, and tenure. We have also requested a Central Bank Transparency Review of the NBM, to be conducted by the IMF and concluded in November 2024. We will discuss the key findings and recommendations and include the related follow up actions into the program at the time of the next reviews. We will continue strengthening the governance of the NBM by reviewing the secondary legislation, organigram, and strategy, also considering the new competencies of the decision-making bodies. We plan to include a requirement for a self-assessment of decision-making bodies. Together with other state institutions, we agreed on a memorandum of understanding clarifying the responsibilities in the process of asset recovery in the context of the 2014/15 bank fraud (see ¶36).

21. We are fully committed to preserving recent banking sector reforms. To this end, we will maintain our current tight regulatory standards and ensure that preservation of the actions undertaken in the process of the removal of shareholders that do not fulfill the fitness and probity criteria—including those that held shares in banks via concerted action, without prior approval —is enforced. We are committed to use all legal avenues and take all necessary actions to counter any challenges to banking reform achievements and safeguard economic security. We are determined to bring perpetrators of the 2014/15 bank 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 discuss if needed in the NCFS—comprehensive contingency plans to: (i) ensure that all provisions and capital charges applied to banks due to pending legal decisions are in line with IFRS and NBM regulations; (ii) require credible and time-bound capital restoration plans in cases where capital falls below prudential limits alongside other supervisory corrective actions; and (iii) if necessary, implement resolution actions identified by competent authorities to preserve financial stability in line with the BRRL. We will take decisive steps and make good faith efforts towards resolving the Victoriabank legacy. This may help boost credit and attract foreign investment.

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

23. We pledge to bolster financial safety nets. We keep improving our stress-testing framework. We started working on stress tests for Non-Bank Credit Organizations (NBCOs) so far based on sensitivity analysis. We have introduced sectoral risk dashboards to monitor systemic-risks build-up, and LCR-based liquidity stress tests to monitor liquidity pressure at monthly frequency. With the recent introduction of mandatory reporting by maturity ladder we will introduce cash-flow based liquidity stress tests (for the 2025 financial stability report). We will continue enhancing the DGF's capability to pay out insured deposits in case of future bank failure, including by conducting regular stress tests for both the DGF and banks. We are working on an action plan to insure deposits of Saving and Loans Associations (SLAs) by end-2025. We keep on strengthening the resolution preparedness of the NBM, including by the preparation of operational plans, and enhancing inter-agency cooperation. We are developing secondary legislation to operationalize the implementation of the Bridge Bank Tool, which we plan to adopt by end-2025, and for Bail-in tool we plan to adopt it by end-2026. We have updated our internal and external regulations for Emergency Liquidity Assistance (ELA) in line with best practices including: setting the maximum maturity of ELA loans at 2 weeks and clearly distinguish it from the legal time limit for ELA (3 months, extendable up to one year); extending the horizon of the forward-looking definition of viability from 12 to 36 months; outlining the discretionary nature of the selection of ELA collateral by the central bank and defining a priority order for the mobilization of eligible assets as ELA collateral; and setting the public haircuts as minimum and ensuring possibility to implement overcollateralization. Following the IMF technical assistance, the NBM has prepared another draft update of the ELA regulation aiming to cover the outlined recommendations. We plan to approve the regulation by end-June 2025, and after that conduct a granular simulation exercise by end-December 2025. We will start discussions on amending relevant laws to clarify types of government guarantees and conditions under which they could be granted in the context of ELA.

24. We are committed to developing a sustainable and environmentally responsible financial system, including ensuring that climate risks do not undermine financial stability in line with the NBM's strategic plan. We aim to build a sustainable finance framework based on best international and EU practices, and taking into account Moldova specifics, starting with the reforms under Moldova's arrangement under the RSF to be completed by end-2025 (section F). We have started this work that involves various intergovernmental agencies, NBM, the National Commission for Financial Markets (NCFM), financial sector representatives, climate and environmental experts, and support from development partners. The NBM is also building regulatory and supervision capacity to monitor, assess, report, and manage financial, environmental, and climate-related risks, including by participating in various workshops and Sustainable Banking and Finance Network (SBFN) Working Groups. The NBM will incorporate the Sustainable Finance Taxonomy and other relevant guidance and regulations into its regulatory framework for financial sector participants. We already amended our reserves management framework to explicitly allow for investment in green bonds and will continue to work on relevant guidance and regulations to develop a sustainable capital market in Moldova.

25. We are improving the oversight of the non-bank sector's viability, corporate governance, and risk management practices. We have transferred to the NBM the regulatory and supervisory responsibilities for the oversight of NBCOs, SLAs, credit history bureaus, insurance companies, and insurance intermediaries effective July 1, 2023. Following the transfer, we have been upgrading the reporting requirements for NBCOs, which were adopted in January and effective as of July 2024. The first data according to the new reporting requirement will be collected in October 2024. We plan to introduce new reporting requirements for the SLAs by end-2026. The supervision and regulation of the sector will continue to be geared towards ensuring financial stability while being guided by the principle of proportionality. Regarding the state automated information system on MTPL (RCA data), we have made significant progress in optimizing and digitalizing the processes for insurers, including by updating the logging system for actions performed on the data, integrating it with the MConnect platform, and developing new digital tools. The NCFM adopted secondary legislation on licensing, qualified shareholders, and fit-and-proper and prudential requirements (end-June 2023 SB, met). The NBM prepared the remaining necessary secondary legislation for Pillar II and III of Solvency II and adopted it in September (**end-September 2024 SB**). We are now preparing the instructions for insurance institutions to ensure adequate reporting, as prescribed by the amended secondary legislation for Pillar II and III of Solvency II. Following the conclusion of the EU Twinning Project, the NBM is carrying out a Balance Sheets Review specification to assess the readiness of insurers for implementation of Pillar I of Solvency II. In parallel, the NBM is preparing the legislation for transposing Pillar I, with the goal to adopt it in 2026, with the date of the entry into force considering the results of the Balance Sheets Review.

26. We are strengthening the regulatory frameworks for capital markets and upgrading the institutional architecture for financial consumer protection. We continue the analysis on further development of capital market, as we acknowledge the need to enhance access to finance of Moldovan companies. In consultation with our stakeholders, including the IMF, we are pursuing a strategy for developing the CSD framework to incentivize financial intermediation and facilitate investments in financial instruments.

- ***Central Securities Depository (CSD).*** We have consolidated supervision of capital markets by transferring the capital market–related supervisory competencies of the CSD from the NBM to the NCFM. We have set up an intra-agency working group to establish the CSD's supervision, ownership, and governance under the new regulatory framework. We have drafted legislation amending the normative acts of the Single Central Securities Depository Law to clarify the regulatory and supervisory responsibilities between the NBM and NCFM to promote the safety, efficiency, and integrity of the capital market and securities settlement systems. This Law was approved by the Government and adopted by Parliament in September 2023. We will continue efforts aligning CSD Law to EU acquis and strengthening the supervision of corporate securities depositories and investment firms, to ensure transparent ownership. We will revoke CSD's ability to acquire and hold non-state securities.

- ***Financial consumer protection.*** We entrusted the NCFM with the financial consumer protection mandate, including well-defined financial consumer protection responsibilities for all financial services from July 2, 2023 (for banking services starting January 1, 2024). We have developed the concept note for the institutional architecture underpinning the reform, which clearly defines the objectives and responsibilities between the NBM and NCFM. The legislation amendments necessary for the reform were approved by the Parliament on June 30, 2023, and the NCFM approved the new organizational chart to reflect better the new competences. The NCFM is currently reviewing the regulatory framework on financial consumer protection by aligning it to EU acquis and strengthening its institutional competences. We have prepared a draft law aimed at consolidating the consumer protection framework which—among other things—will extend consumer protection regulations to the SLA sector. We also ensured adequate funding of the NCFM to perform its new mandate. With the support of the USAID and the World Bank, we are strengthening the regulatory and institutional capacities to better fulfil the supervisory role, and NCFM is actively conducting inspection activities.

- ***Capital markets.*** The NCFM continues the process of drafting the national strategy for capital markets development, with the support of USAID and taking into consideration recommendations provided by the EBRD project "Market development strategy and business plan for the Moldovan capital market infrastructure". We carried out the diagnostic of the capital market in Moldova that will support the development of the national strategy. We aim to complete the strategy by end-2024. Following the adoption and entering into force of the regulatory framework for voluntary pension funds, NCFM has approved the decision to establish a first pension company eligible for operating a voluntary pension fund and is going through the licensing process.

27. We are taking steps towards improving financial inclusion. To this end, the NBM is actively modernizing the financial market infrastructure to facilitate cashless, cheaper payments, and we launched the "MIA" instant payment scheme in March 2024, with over 345,000 users accounts being activated by mid-September. In July 2024, NBM launched the new payment functionalities, including MIA for business (QR code–based payments to merchants) and Me2Me transfers for individuals. We plan to further extend it to cover also business-to-person and person-to-government transactions by end-2024. We are also preparing the PSD2-based open banking system to be launched in February 2025, including by developing and updating the necessary legislation. In light of these advances, we have revised amendments to the law 114/2012 to ensure licensing, adequate supervision, and fair competition between EU-licensed and national payment service providers and payment initiation service providers. We are working towards joining the Single Euro Payments Area (SEPA), and we have submitted our application in January this year. As recommended by the FSSR, we updated the primary legal framework for online identity verification system (e-KYC procedure) effective July 1, 2023, which will improve customer services and use of regulated financial services. This will also increase the reach and effectiveness of our AML/CFT regime. The NBM's FinTech division proactively engages with the private sector in order to develop new products based on the instant payments infrastructure that leverage digital services and provide modern, fast, efficient, and inclusive financial services for consumers and SMMEs. In June this year, we have set up an inter-agency committee with a mandate to develop, implement, and monitor a National Financial Inclusion Strategy (NFIS) with support from the WB (**end-June 2024 SB**). The diagnostic phase is ongoing, and we expect to formalize the governance structure for the NFIS and the action plan to develop the NFIS by January 2025. The strategy will comprise four main pillars: (i) quality and usage of financial services, (ii) payment eco system, (iii) financial consumer protection, and (iv) financial capability.

28. We are committed to protecting our financial sector from illicit financial flows by strengthening AML/CFT regime's effectiveness. Decisive actions were taken to identify and prevent diverse attempts of cross-border illicit finance. These resulted in dismantling several illegal financing schemes and seizing large amounts of cash and wired funds. We will continue to strengthen cooperation between relevant agencies, adjust the regulatory framework, or introduce temporary restrictions on selected payment instruments where warranted by higher ML/TF risks. We will intensify efforts to detect, investigate and prosecute ML. To implement the risk-based approach to AML/CFT supervision and with the support of IMF capacity development project, we have enhanced our data collection and are adopting a new risk-based AML/CFT supervision methodology, including an institutional risk assessment for banks. We will develop a banking sector ML/TF risk assessment on the basis of the new methodology, publishing its executive summary. We are developing a guidance for the business ML risk assessments for the foreign exchange sector and have been conducting outreach on better understanding of risks and more effective application of preventive measures focusing on suspicious transactions reporting, politically exposed persons, and the identification of beneficial owners. We commit to continuing these efforts, including through targeted supervisory activities with a focus on cross-border ML/TF risks. We are developing a national mechanism for monitoring cross-border payments, building on the NBM's transaction screening toolkit, to address illicit financial flow risks and will improve the coordination among all relevant actors, including the NBM, SPCSB (Office for Prevention and Fight against Money Laundering) and STS. We have adopted a National AML/CFT Strategy for 2020–25 and will update our National Risk Assessment, develop the accompanying action plan, and publish the results.

D. State Owned Enterprises and Energy Sector Reforms

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

- We adopted a state-ownership strategy in December 2022—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. The rationales of the strategy include:

(i) supporting national economic interests; (ii) maintaining critical infrastructure; (iii) producing strategic goods and services; and (iv) providing basic social services.

- We completed a triage of SOEs owned by the central government, in line with the approved state-ownership strategy (end-December 2023 SB), and following the adopted methodology that specified the criteria for classification of all SOEs into five categories, those that will: (i) remain under state management, (ii) be privatized in the short-term, (iii) be privatized after certain reforms, (iv) be restructured into public institutions, and (v) be liquidated. In parallel, we are addressing legal impediments to the implementation of the SOE ownership strategy related to the delineation of public and private assets. We have developed a strategy for the SOEs at central government level that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks, (ii) a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss-making in November 2024 (**end-September 2024 SB**). With IMF technical assistance support, we will enhance the SOE fiscal risk mitigation through (i) establishing regular conduct of SOE stress testing and, if applicable, use of other financial performance assessment tools, and (ii) defining enhanced processes to inform decision making (**new end-May 2025 SB**). We also intend to propose a privatization strategy for small and large enterprises and set economic benchmarks to identify the most opportune conditions for launching de-nationalization efforts.

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

30. Safeguarding energy security remains our priority amidst still high risks. We have adopted the plan of measures for the 2024–25 heating season. As in previous year, the plan considers different scenarios based on the natural gas availability and electricity deliverables, based on which we have identified appropriate preventive measures in order to reliably provide energy resources and utilities to the economy and households. We have also taken measures to reduce energy consumption and improve energy efficiency. We elaborated the Regulation and Action Plan for emergency situations in the gas and electricity sectors transposing Regulation (EU) 2017/1938 concerning measures to safeguard the security of gas supply and Regulation (EU) 2019/941 on risk preparedness in the electricity sector, which will be approved by Government in 2024Q4.

Natural Gas

- With the €300 million EBRD credit line and usage of fiscal buffers, we accumulated sufficient gas reserves for last winter. An amendment of the Loan agreement between the Republic of Moldova and the EBRD to implement the "Security of natural gas supply" project secured a new tranche (no.

3) of €165 million in October 2023, supplemented with €34 million grant from the Norwegian Government under the NANSEN program. By October 1, 2024, a total of 97.1 million m^3 of natural gas is required to be stored, with 47.1 million m^3 designated as security stocks under Government Decision No. 688/2022 amended through Government Decision No. 364/2024. This target was reduced from the initially required 149.5 million m^3 due to technical limitations, as outlined in Government Decision No. 365/2024. To meet the security stock requirement, JSC "Energocom" procured an additional 1.5 million m^3 of gas in October 2024, in accordance with Law No. 108/2016, as amended by Law No. 249/2022 and Government Decision No. 364/2024.

- Unbundling of transmission system operators (TSO) started in September 2023. LLC "Vestmoldtransgaz" has been designated as the operator of the natural gas transmission system in the Republic of Moldova; in February 2024, it was preliminary certified by ANRE according to the ISO model, and in August it received the final certification.

- Thanks to new national and cross-border natural gas transmission and distribution infrastructure, increased access to energy markets in neighboring countries and changing regional energy flows, the Republic of Moldova now has access to a number of new options to mitigate its high dependence on gas supplies, being ensured through the diversification routes and sources of gas imports, and addressed infrastructure bottlenecks and inefficiencies. Specifically, in line with the South-East European regional action plan of the EU energy platform, we also ensured that customs regulations enable Moldova to operationalize virtual reverse pipeline flows ("backhaul"). As a result, during 2023, a significant amount of gas was transported through this regime, mostly through the Trans-Balkan pipeline, which helped to increase energy security and the preparation for the winter season. We have adjusted the regulatory framework to ensure closer and faster alignment of domestic tariffs with imported prices.

Electricity

- The war continues to create supply and price uncertainties. In response to risks related to the expiration of the Ukraine-Gazprom agreement at end-2024 and potential disruptions to MGRES supplies, we have developed contingency plans and analyzed scenarios, addressing potential impacts on electricity system stability (detailed in Action Plan for the heating season 2024-2025). As part of these plans, additional energy buffers have been secured, including bilateral electricity contracts with producers from Romania and Ukraine. The registration of the state-owned company JSC "Energocom" on the OPCOM electricity market in Romania provides access to all the necessary instruments for the purchase from spot market and other sources. However, interconnection capacity with Romania remains constrained until additional transmission lines will have been built and commissioned. Moreover, if the energy infrastructure in Ukraine will continue to deteriorate as a result of Russian attacks, this will affect the availability of energy volume for Moldova. To mitigate risks, economic agents and households have been encouraged to save energy during peak hours, and a voucher program for low-income households has been introduced to promote the purchase of energy-efficient appliances.

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

- Amendments to electricity related laws, in line with EU regulations on the integrity and transparency of the wholesale energy market, were approved by the Parliament in December 2023. We also appointed Operatorul Pietei de Energie M (OPEM) as electricity market operator, to establish an electricity market aiming to enhance market efficiency and boost liquidity and investor confidence.

E. Rule of Law and Anti-Corruption

31. Continuing implementation of judicial reform, improving governance, and addressing high-level corruption remain a priority. We are committed to strengthening institutions, combatting high-level corruption, rooting out dishonest officials, and preparing the ground for strong rule of law in Moldova. Our short-term goals include cleansing the judiciary and promoting accountability of high-level judges and prosecutors, which is critical to addressing corruption, reducing avenues for political influence, restoring trust in our court system, and improving delivery of justice. We also recognize the importance of capacity building and ensuring the effective functioning of key anti-corruption institutions. We have reviewed our anti-corruption strategy and adopted in December 2023 a new national program of integrity and anti-corruption for 2024–2028.

32. We recognize the need to strengthen the integrity, capacity, and effectiveness of the judiciary and prosecution service. We endeavor to modernize our judicial system in line with recommendations by international bodies and experts. These priorities are contained in our Strategy on Ensuring Judicial Independence and Integrity for 2022–2025. In March 2022, we passed legislation governing the integrity vetting of candidates for the Superior Council of Magistrates (SCM) and the Superior Council of Prosecutors (SCP) and their respective colleges (so-called pre-vetting). This mechanism was established in consultation with the Venice Commission and is carried out for members of the SCM and SCP. We initiated competition for the members of SCM's Board for the Selection and Appointment of Judges in September 2023, with all twelve candidates interviewed and vetted. An integrity assessment (full vetting) law was adopted and entered into the force on August 22, 2023, prioritizing vetting of high-level judges and prosecutors, with an objective to "cleanse" the ranks of the judiciary and prosecution service. We also adopted amendments to remodel the Supreme Court of Justice (SCJ) as a cassation court with an objective to improve the quality of case law. In addition, we provided for an extraordinary integrity assessment of the future judges of the SCJ, which is currently ongoing.

33. We will grant sufficient capacity, resources, and legal powers to the Anticorruption Prosecutor's Office (**APO) to effectively detect, investigate, and prosecute high-level corruption.** We revised the institutional anti-corruption framework in July 2023, with APO mandated with both investigation and prosecution of high-level corruption and NAC responsible for low and mid-level corruption. We amended the Criminal Procedure Code to ensure that APO's investigative jurisdiction covers: (i) all types of corruption-related offences listed in the UN Convention against Corruption as well as false asset declarations, and (ii) all high-level officials defined in the Article 123(3) with some exceptions of lower-level officials. The law entered into the force on March 1, 2024 and the transfer of ongoing criminal cases in line with the revised investigative jurisdiction was completed on March 31, 2024 (Fourth Review prior action). As special investigative techniques, such as wiretapping and surveillance, are critical for effective investigation of corruption offences, investigative officers seconded to APO were granted these powers by legal amendments adopted in November 2023. To ensure that APO has sufficient capacity to deliver on the mandate to investigate high-level corruption, we assessed APO's capacity needs, including required equipment, premises, and staffing (prosecutors, investigative officers, counsels, and experts). This assessment informed the budgetary allocation for APO in the national budget for 2024, providing APO with an independent budget using its separate budgetary code (end-June 2023 SB, met). We adopted a new organizational structure for APO, granting 54 new staff positions and are committed to increase the staffing autonomy of APO required to promote its operational independence. We remain committed to an APO that is operationally independent and with staffing autonomy. To this end, in lieu of the previous structural benchmark, we will (i) amend the SCP regulations to require the body to seek the written opinion of the APO Chief on shortlisted prosecutors prior to transfer or promotion to the APO; and (ii) ensure that the APO will be sufficiently staffed with at least 70 percent prosecutor positions and 70 percent investigator (including case officers) positions filled **(new end-March 2025 SB).** We will grant APO separate functional premises in December 2024.

34. To complete the anti-corruption institutional infrastructure, we will adopt a law to establish an anti-corruption court. To ensure timely and specialized adjudication of corruption cases, the President's Administration had initiated the establishment of an anti-corruption court, submitting a draft law to Parliament in July 2023. The law on the establishment of the anti-corruption adjudication infrastructure will be adopted by end-December2024, in consultation with the IMF staff and in line with the Venice Commission opinion, including a credible framework for the selection process of anti-corruption judges for both first and appeal instance, which will promote appointment of persons with impeccable reputation and high professional and moral qualities using objective selection criteria. The Court's jurisdiction focuses on cases (i) investigated and/or prosecuted by APO, (ii) a limited number of non-APO cases based on articles 324–335 and 181–1 of the Penal Code as committed by high-level officials defined in the article 123 (3) or in large proportions defined in the article 126 (1), and (iii) of substantial unjustified wealth and related confiscation by NIA (**end-September 2024 SB**), which we request to be rephased to end-December 2024, due to the need for additional consultations. We will benefit from external donor-partners in the process of operationalization of ACC, including from financing and technical support. Prompt operationalization of the anti-corruption court law is now one of the main priorities in the justice reform agenda in the context of delays on high-profile corruption cases and limited successes in addressing corruption in the justice sector by the current judiciary. At the same time, we will be mindful of the caseload and potential for overburdening the new ACC.

35. Corruption enforcement is increasingly focusing on high-level corruption and recovering criminal proceeds. After the first 9 months of 2024, APO has sent to court 43 cases from its own investigations, obtained 121 sentences for 174 persons in the first instance court, including fine and confiscation orders for over MDL 63 million total, a figure that is many times larger than any of the prior years (MDL 8.6 million in 2020, 10.6 million in 2021, 17.1 million in 2022, and 12.5 million in 2023). Significant sentences pronounced in 2024 include a sentence of 10 years imprisonment for a former head of a bank involved in the Bank Fraud case, a sentence of 10 years imprisonment against a judge for corruption, a sentence of 6 years imprisonment against a former president of Parliament for corruption, and a finding of guilt in multiple cases against former judges involved in the Laundromat case. We are also developing a database of seized assets at the Criminal Assets Recovery Agency, allowing for more transparency into the management of confiscated assets and the types of enforcement measures that have been taken following final court decisions. Among the priorities moving forward will be the intensification of scrutiny of high-level officials' sources of wealth, including assets held abroad, leveraging the asset declaration regime and the illicit enrichment offence. We are working on amendments to the legal framework for asset recovery, with a view to address gaps in responsibilities and accountability and streamline and shorten processes and procedural deadlines. An important focus will be on social reuse of confiscated assets. Our aim is to send these amendments to parliament by end-December 2024.

36. We remain resolute in achieving progress on asset recovery from the 2014 banking fraud through criminal justice efforts and channels and cooperation with foreign counterparts, including on the establishment of joint investigative teams and task forces. A national program for criminal asset recovery 2023–2027 has been adopted and we are progressing in implementing the associated action plan. In order to improve coordination and clarify responsibilities regarding the asset recovery following the 2014–15 bank fraud among the relevant state agencies, we signed, in September 2024, an MoU describing and delineating responsibilities among institutions involved in the asset recovery process, and published it in November 2024. The MoU has set up a Steering Committee, a Working Group charged with executive coordination, and a high-level Monitoring Committee, chaired by the Prime Minister. Summaries of the meetings of the Working Group will form the basis for the adoption of the measures to solve constraints and challenges in the process of recovery of criminal assets. Summaries will be published within one month.

F. Building Climate Resilience

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

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

- ***Reform Area 1:*** *Adaptation and Mitigation Policy, and Disaster Risk Management*. We will strengthen the legal and institutional framework for managing climate change with a view to enhance cross-sectoral coordination and to accelerate implementation.

  - We have: (i) adopted the Law on Climate Action enabling low carbon development and climate change resilience, and (ii) established a National Commission on Climate Change (NCCC) under the Office of the Prime Minister, as part of the institutional arrangements for managing climate change with clear tasks and responsibilities and procedures (including regular meetings and reports) defined in the supporting government decree (**RM1**).

  - We are in the process of preparing and adopting a Disaster Risk Management (DRM) program. It includes a single comprehensive strategy which (i) covers the full spectrum of the Sendai framework (disaster prevention and mitigation, preparedness, response, as well as rehabilitation and recovery), and (ii) defines an institutional framework with clearly assigned roles and responsibilities at the national and subnational level, including assigning the role for DRM coordination and strategic planning under the Office of the Prime Minister, e.g. to the NCCC (**RM2**). RM2 will be completed to be assessed at the next review.

  - By the fourth review, we will: develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses (**RM3**). These maps will be made available online and updated regularly.

- ***Reform Area 2:*** *Energy Sector Policies*. We are taking a comprehensive approach to energy reforms, to ensure energy efficiency and security, while promoting energy transition. Cognizant of the important role that the building sector plays with respect to GHG emissions, we are designing and implementing a mechanism to support the energy efficient refurbishment of public and private buildings transparently through the budget. The former Energy Efficiency Agency has been reorganized into the National Centre for Sustainable Energy (NCSE). The Residential Energy Efficiency Fund was established as a division of the NCSE.

  At the same time, we are advancing the energy transition by preparing the energy market and the network infrastructure to facilitate the onboarding of additional renewable resources to reach the NDC target of 27 percent of renewable energy by 2030 (from the current 24 percent). The Ministry of Energy has published the Indicative timetable for the planned tendering procedures for the offer of large eligible producer status for the period 2024–2025: allocated capacity is Wind—105 MW; Solar—60 MW. In addition, ensuring the financial viability of the sector in light of substantial infrastructure investment needs will help encouraging private investment in the sector. To avoid fiscal risks, we will carefully sequence measures ensuring the absorptive capacity is available as new production capacity becomes available. Following cost-recovery principles and gradual phasing-out of tax expenditures, while targeting income support to the most vulnerable consumers, will be important steps in this direction. To reduce the number of energy vulnerable consumers and reduce energy consumption, the EU-funded 'Rabla for Household Appliances' programme, implemented by UNDP Moldova and with a total budget of around $5.8 million, provided voucher-based financial support for LED light bulbs and up to 80 percent of the cost of a refrigerator, electric cooker or washing machine. To date, more than 7,200 vouchers have been used for a major appliance and more than 32,000 for LED bulbs.

In order to ensure the sustainability of the programme, the Ministry of Energy has launched a public consultation on a draft government decision to approve the new "Rabla for Household Appliances" programme.

- In light of the important reform initiatives, which will require substantial infrastructure investment, we are preparing the determination of the cost-recovery rate for the provision of electricity and natural gas (fully reflecting operational and capital costs including for future investments and reforms identified in the Energy Strategy), (i) identifying any discrepancy between tariff and so defined cost recovery, considering tax expenditures, (ii) undertaking a distributional impact assessment, and (iii) close any gap by adjusting the tariff or by compensating the operating company transparently from the budget (**RM4**). RM4 will be completed to be assessed at the next review.

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

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

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

- In line with C-PIMA recommendations, we have amended Regulation 684 and Ministry of Finance Order nr. 104 to include a requirement for Ministry of Environment to assess the climate change impact and environmental implications of projects as part of project appraisals. The issuance of such assessment by the Ministry of Environment is required for projects to be accepted for the evaluation procedure. We are working on developing related methodologies to implement that legislation and to inform project selection, to complete RM7 for assessment at the next review.

- By the third review, we will:

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

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

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

    - For the first review, we have:

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

        - Developed, adopted, and started implementing a Sustainable Finance Strategy ("Roadmap") and Action Plan for Moldova's financial sector (**RM11**).

    - By the fourth review, we will:

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

G. Economic Statistics

39. We remain committed to improve the quality of our economic statistics. Our efforts continue to be geared towards enhancing the production and dissemination of economic statistics, which remain vital for effective macroeconomic policy and decision making. To this end, we have developed the legal framework for statistical production in line with relevant EU standards, in particular to enable access to personal data from administrative and private sources for statistical purposes. Moreover, to increase fiscal transparency and address the existing misclassification of spending, including the wage bill, contingencies, and inventories, we will prepare and report the fiscal accounts for 2023 in line with GFSM2014 (**April 2025 SB**). In addition, we have adopted the Strategy on the Development of the National Statistical System (NSS) for 2023–2030, and the NSS Development Program for the years 2023–2026. These documents outline plans to: (i) modernize the production and dissemination of official statistics, and (ii) use of new methods to enhance the quality and accessibility of statistical data, thus meeting users' needs. We will strengthen the operational capacity of the National Bureau of Statistics (NBS), through: (i) allocating adequate human and financial resources;
(ii) building new capacities and capabilities; and (iii) augmenting the mandate of the NBS for the effective use of administrative and alternative data sources.

H. Program Monitoring

40. The ECF/EFF- and RSF-supported programs will be monitored through semi-annual reviews. A complete schedule of reviews is set out in the accompanying staff report. The QPCs, inflation consultation clause (ICC), and ITs have been extended to include targets through September 2025. The QPCs, ICC, and ITs are set out in Table 1, as specified in the TMU attached to our Letter of Intent dated December 2, 2024. We are requesting modification of the end-2024 ceiling on the cash deficit of the general government, in line with the revised forecast and to reflect higher-than-projected revenues and increase of the end-2024 NIR floor to build additional buffers. We are also requesting modifications of March ITs and June-2025 cash deficit ceiling and NIR floor and the size of the associated adjustors. The SBs are set out in Table 2. The RSF reviews are based on the evaluation of implementation of the RMs set out in Table 3.

Table 1. Moldova: Quantitative Performance Targets, December 2023 – September 2025

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

	2023				2024														2025				
	December				March 1/				June				September 1/				December		March 1/		June		September 1/
	Prog. Target CR 23/6	Adj. Target	Actual	**Status**	Prog. Target CR 23/152	Adj. Target	Actual	**Status**	Prog. Target CR 23/428	Adj. Target	Actual	**Status**	Prog. Target CR 23/428	Adj. Target	Actual	**Status**	Prog. Target CR 24/208	Proposed	Prog. Target CR 24/208	Proposed	Prog. Target CR 24/208	Proposed	Proposed
1. Quantitative performance criteria 1/																							
Ceiling on the cash deficit of the general government	18,527	18,527	15,572	**Met**	4,580	4,580	2,342	**Met**	6,105	6,105	5,528	**Met**	9,281	9,281	5,622	**Met**	16,593	14,023	4,290	2,587	6,250	6,667	8,237
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) 2/	3,146	2,752 5/	5,432	**Met**	3,300	3,300	5,437	**Met**	3,538	3,538	5,316	**Met**	3,776	3,776	5,650	**Met**	4,014	4,814	4,077	4,877	4,141	4,941	5,041
2. Continuous performance criteria																							
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	**Met**	0	0	0	**Met**	0		0	**Met**	0	0	0	**Met**	0	0	0	0	0	0	0
3. Indicative targets																							
Ceiling on the general government wage bill	25,618	25,618	24,404	**Met**	6,275	6,275	6,408	**Not met**	14,032	14,032	14,165	**Not met**	20,417	20,417	20,162	**Met**	27,549 /6	27,828	7,250	6,860	14,833	15,210	22,513
Floor on targeted social spending undertaken by the general government 3/	5,989	5,989	4,897	**Not me**	2,694	1,268	1,435	**Met**	1,728	1,728	2,110	**Met**	1,807	1,807	2,433	**Met**	2,495	2,905	840	1,004	1,230	1,442	1,692
Floor on developmental spending undertaken by the general government 4/	34,940	34,940	44,246	**Met**	7,906	7,906	9,627	**Met**	17,436	17,436	20,742	**Met**	27,091	27,091	30,689	**Met**	41,191	41,703	9,461	10,051	21,560	21,471	34,061
4. Inflation Consultation Bands (in percent)																							
Outer Band (upper limit)	11.0	8.0			8.0	8.0			8.0				8.0				8.0	8.0	8.0	8.0	8.0	8.0	8.0
Inner Band (upper limit)	9.5	6.5			6.5	6.5			6.5				6.5				6.5	6.5	6.5	6.5	6.5	6.5	6.5
Center point	8.0	5.0	4.2	**Met**	5.0	5.0	3.9	**Met**	5.0		3.7	**Met**	5.0		5.2	**Met**	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Inner Band (lower limit)	6.5	3.5			3.5	3.5			3.5				3.5				3.5	3.5	3.5	3.5	3.5	3.5	3.5
Outer Band (lower limit)	5.0	2.0			2.0	2.0			2.0				2.0				2.0	2.0	2.0	2.0	2.0	2.0	2.0

1/ Indicative targets for March 2024, September 2024, March 2025 and September 2025.
2/ The NIR target is set as specified in the TMU.
3/ Includes Energy Vulnerability Reduction Fund (EVRF), heating allowance, payments under Ajutor Social and unemployment insurance programs.
4/ Includes health, educational, and infrastructure spending.
5/ In line with TMU ¶22.
6/ The IT ceiling is proposed to be revised to align with the approved budget.

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

	Measure	Rationale	Timeframe	Status
Prior Actions				
1	Submit to Parliament a package of legislative amendments to strengthen the NBM laws in consultation with IMF staff and in line with the March IMF mission recommendations on (i) strengthening procedures related to changes in the members of decision-making bodies of NBM, including procedural safeguards, and introducing checks and balances; (ii) fine-tuning governance and decision-making structures of the NBM, especially the qualifications, membership, tenure, staggering and mandate of the executive and supervisory board members, and (iii) clarifying legal provisions on NBM's accountability to Parliament, and strengthening public communications.	Strengthen the institutional autonomy and governance of the NBM		**Prior Action**
Structural Benchmarks				
Anti-Corruption and Rule of Law				
1	Adoption of the law on establishment of anti-corruption adjudication infrastructure, including a credible selection process of anti-corruption judges , which will promote appointment of persons with impeccable reputation and high professional and moral qualities.	Strengthen anti-corruption institutions	end-September 2024	**Not met, reset to end-December 2024**
2	Adopt legal amendments to grant APO autonomy in hiring of staff		end-November 2024	**Not met, replaced by proposed new SB**
3	Ensure APO is operationally independent and with staffing autonomy by (i) amending the Superior Council of Prosecutors regulations to require APO's written opinion on shortlisted prosecutors prior to transfer or promotion to APO; (ii) ensure that APO will be sufficiently staffed with at least 70 percent of prosecutor positions and 70 percent investigator (including case officers) positions filled.		end-March 2025	**Proposed new SB**
Fiscal Governance				
4	Prepare a proposal identifying tax expenditures to be phased out based on cost-benefit analysis.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end- December 2024	
5	Presenting fiscal accounts in GFSM2014 format	Strengthen accuracy of general government data	end-April 2025	
6	With IMF TA, prepare a report summarizing the findings of a review of the legislative framework and practices of tax audit	Strengthen tax administration reforms and revenue mobilization	end-January 2025	
7	Develop a plan for modernization of tax audit in line with the findings of the report		end-April 2025	
8	Submit for public consultation a new Chapter III of the Moldova Tax Code, setting out a VAT framework that is simple, broad-based, and compliant with the EU VAT acquis.	Reduce distortions and raise revenue	end-September 2025	**Proposed new SB**
9	By end-September 2025, Cabinet will approve draft legislation to eliminate tax expenditures starting in January 2026, including by extending the tax base or revising preferential tax regimes, with the goal of raising at least MDL 900 million in additional annual revenue compared to current policy.		end-September 2025	**Proposed new SB**
10	MoF to approve a Roadmap for a comprehensive medium-term salary structure reform, to realign functions with positions, reduce the number of reference values, and evaluate the fiscal implications of such reform	Improve simplicity and fairness of salary structure	end-June 2025	**Proposed new SB**
Financial Sector Oversight				
11	The NBM will prepare and adopt the remaining necessary secondary legislation for Pillar II and III of Solvency II.	Facilitate implementation of the Solvency II insurance framework	end-September 2024	**Met**
12	Develop an inter-agency committee with a mandate to develop, implement, and monitor National Financial Inclusion Strategy (NFIS).	Improve financial inclusion	end-June 2024	**Met**
13	Submit to Parliament a package of legislative amendments to strengthen the NBM laws in consultation with IMF staff and in line with the March IMF mission recommendations on (i) strengthening procedures related to changes in the members of decision-making bodies of NBM, including procedural safeguards, and introducing checks and balances; (ii) fine-tuning governance and decision-making structures of the NBM, especially the qualifications, membership, tenure, staggering and mandate of the executive and supervisory board members, and (iii) clarifying legal provisions on NBM's accountability to Parliament, and strengthening public communications.	Strengthen the institutional autonomy and governance of the NBM	end-November 2024	**Not met, reset as prior action for the sixth review**
SOE and Regulatory Framework Reforms				
14	Develop a strategy for the all the SOEs at the central government level that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks, and (ii) a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss making.	Improve SOE governance and reduce fiscal risks	end-September 2024	**Not met, implemented with delay in November 2024**
15	With the help of Fund TA, enhance the SOE fiscal risk mitigation framework through (i) establishing regular conduct of SOE stress testing and if applicable use of other financial performance assessment tools, and (ii) defining enhanced processes to inform decision making.	Improve SOE governance and reduce fiscal risks	end-May 2025	**Proposed new SB**

Table 3. Moldova: RSF Reform Measures

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

Source: IMF Staff

Attachment II. Technical Memorandum of Understanding

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

A. Quantitative Program Targets

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

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

Indicative targets are set on:

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

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

B. Program Assumptions

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

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

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

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

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

C. Institutional Definitions

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

D. Program Definitions

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

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

[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.

grade and deposits in counterparts with a minimum rating of investment-grade.[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$ 3708.57 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. 16919–(20/103), 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. Additionally, there are outstanding amounts on a debt owed to the Russian Federation that stem from old commercial debt contracted in 2001 and held in an escrow account[5] at the NBM, as noted in MEFP paragraph 8. For the purposes of this performance criterion, nonpayment of external debt service to Russia will not give rise to arrears when the Central Government and the NBM cannot pay or settle based on the contractual terms solely due to factors outside the debtor's control (e.g. the transfer of funds being rejected owing to intermediary financial institutions' compliance policies, sanctions or inability to identify the counterparty), as long as the debt service payments have been paid in full into an escrow account held by a third-party by the contractual due date, taking into account any contractual grace period. Funds in such escrow accounts will be used only to satisfy the related external debt obligations, and their use or withdrawal for other purposes would constitute a breach of the PC.

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

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

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

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

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

E. Inflation Consultation Mechanism

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

18. **Should the observed year-on-year rate of CPI inflation fall outside the inner bands specified for the end of each quarter (text table),** the NBM will consult with IMF staff on the reasons for the deviation and the proposed policy response. Should the observed year-on-year rate of CPI inflation fall outside the outer bands specified for the end of each quarter (text table), the authorities will consult with the 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

	2024				2025			
	March	June	September	December	March	June	September	December
Outer Band (upper limit)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Inner Band (upper limit)	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Center point	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Inner Band (lower limit)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Outer Band (lower limit)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

F. Adjusters

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

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

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

22. The **floor on NIR** of the NBM will be lowered by any shortfall in the official external grants and loans up to the equivalent of US$285.1 million and US$192.4 million in 2024 and 2025, respectively, valued at the program exchange rates.

Programmed External Financing Flows [1/]

(Cumulative from the beginning of the calendar year)

	2024				2025		
	March [2/]	June	September [2/]	December [3/]	March [2/]	June	September [2/]
	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target
Programmed external financing flows to adjust the floor on the NIR target (US$ million)	13	90	207	285	48	96	144
Programmed external financing flows to adjust the ceiling on the cash deficit (MDL million)	230	1,590	3,656	97	122	244	367

1/ Excluding IMF financing.

2/ Indicative targets for March and September.

3/ Due to adjustment in QPC in line with November supplementary budget, the adjustor is not cumulative from the beginning of the year.

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

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

REPUBLIC OF MOLDOVA

December 2, 2024

SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

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

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

The Debt Sustainability Analysis (DSA) assesses Moldova at low risk of external debt distress and at moderate risk of overall public debt distress, unchanged from the previous assessment.[1] *Moldova's public debt is considered sustainable with current debt carrying capacity assessed as strong.*[2] *Overall, the public debt trajectory remains vulnerable to risks, particularly from shocks to real GDP growth, calling for broadening growth drivers, sustaining reform momentum, and remaining committed to prudent fiscal policy under the ECF/EFF program, while reducing longer-term risks stemming from climate change through the RSF arrangement. In addition, improving governance, enhancing effectiveness of public spending—especially public investment—and strengthening management of fiscal risks, including from SOEs, are priorities to contain public debt vulnerabilities and reducing vulnerabilities to extreme weather events and energy shocks.*

[1] The previous DSA, dated November 21, 2023, accompanied Moldova's Staff Report for the Fourth Reviews under the ECF/EFF and the request for an arrangement under the RSF.

[2] Moldova's Composite Indicator (CI) index, based on the October 2024 WEO update and the World Bank 2023 Country Policy and Institutional Assessment (CPIA), indicates that the country's debt carrying capacity remains strong (3.08) and unchanged from the previous DSA, but close to the lower bound of 3.05 of strong debt carrying capacity signaling.

PUBLIC DEBT COVERAGE

1. **Moldova's public debt includes obligations of the public sector (central government, local authorities, and public entities) as in the previous DSA.** Public debt includes external and domestic obligations, including arrears to suppliers and guaranteed debt. Debt coverage includes debt of state and municipal enterprises, of 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] Debt coverage is on residency basis.

Text Table 1. Moldova: Public Debt Coverage

Public Debt Coverage

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

Public Debt Coverage and the Magnitude of the Contingent Liability Tailored Stress Test

1	The country's coverage of public debt	The central, state, and local governments plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt		
		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 and publicly guaranteed (PPG) debt stabilized in 2023 at 36.6 percent of GDP.** PPG debt peaked at 37.1 percent of GDP in 2016, up from 27 percent of GDP in 2012. A key driver of this increase was issuance of a state guarantee to the National Bank of Moldova (NBM) to provide emergency liquidity to the banking sector in 2014–15. It was then on a downward trend until 2019. However, in 2020, COVID-induced borrowing pushed up public debt, driven by a decline in nominal

[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 public debt. Debt of SOEs with maturity longer than one year accounted for less than 2 percent of GDP as of 2022. The authorities continue to take 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. 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 10 percent of GDP is meant to capture risks from the financial market.

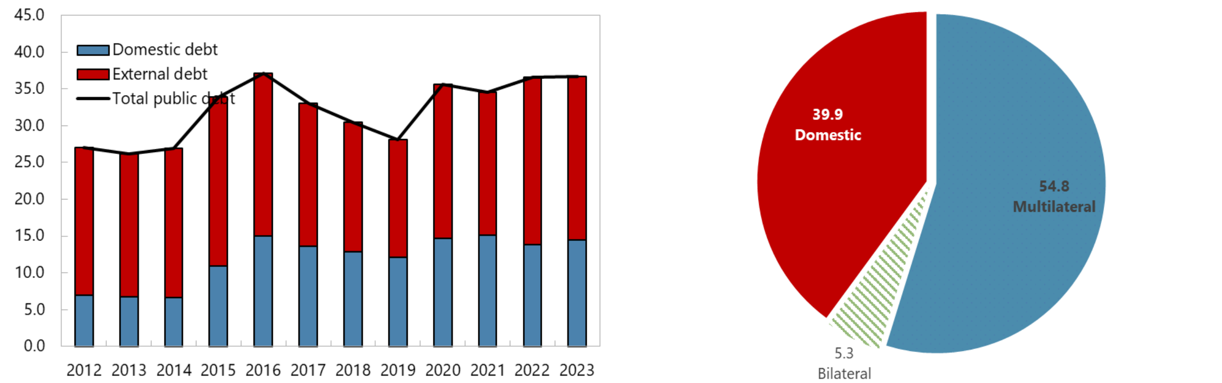
[4] Includes obligations on the SDR allocation in 2021 (about US$236 million).

GDP and increases in both domestic and external debt (Table 2)[5], while shocks in 2022 related to Russia's invasion of Ukraine and the subsequent policy response led to an increase of 2 ppt. PPG stabilized in 2023, but is expected to rise this year, reflecting continued borrowing from multilateral and bilateral official creditors and an increase in trade credit and advances. Currently, nearly 55 percent of PPG debt is from multilateral institutions, while about 40 percent is PPG domestic marketable debt, split between longer-term debt securities and short-term T-bills. Other domestic marketable debt is mainly short-term and held by the banking system.

Text Figure 1. Moldova: Public and Publicly Guaranteed Debt

Evolution of Public Debt, 2012–2023 (Percent of GDP)

Composition of Public Debt Stock, end-March 2024 (In percent of total)



Sources: IMF WEO and IMF staff calculations.

3. **Moldova's gross external debt declined by 4 percent of GDP in 2023 from 66.5 percent of GDP in 2022.** In 2022, PPG external debt increased over 3 ppts from just over 19 percent of GDP in 2021, reflecting increased support from multilateral institutions in response to the 2022 shocks. A reduction of gross total external debt during 2016–19 largely reflected a decline in private external debt, which at above 40 percent of GDP since 2010, remains relatively elevated compared to peers. The appreciation of the nominal exchange rate by about 14 percent during this period contributed to the reduction in the gross external debt ratio. The decline in private sector debt during this period was also due to a decrease in external borrowing by the banking sector, reflecting the aftereffects of the banking crisis in 2014. However, private debt is expected to decline below 40 percent in 2024 and over the medium term. While total external debt in Moldova is sizable at 62.2 percent of GDP in 2023, about one-third of private debt is liabilities to direct investors (foreign-owned companies in Moldova borrowing from their parent companies abroad). Short-term debt of the non-bank sector is high as well—over one-third of non-bank debt—and consists of trade credits, advances, and other debt liabilities, mostly for the import of natural resources.

[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 1/

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

	Debt Stock (end of period)			Debt Service							
	3/31/2024			2024	2025	2026	2027	2024	2025	2026	2027
		(Percent total debt)	*(Percent GDP)*					*(Percent GDP)*			
Total	**6202.9**	**100.0**	**34.8**	**882.2**	**3051.3**	**3655.0**	**4235.0**	**5.0**	**16.5**	**18.0**	**18.9**
External	**3727.4**	**60.1**	**20.9**	**493.5**	**346.7**	**367.6**	**404.0**	**2.8**	**1.9**	**1.8**	**1.8**
Multilateral creditors 2,3/	3398.8	54.8	19.1	462.2	328.7	349.3	385.6	2.6	1.8	1.7	1.7
IMF	1139.5	18.4	6.4								
World Bank	1050.8	16.9	5.9								
ADB/AfDB/IADB	0.0	0.0	0.0								
Other Multilaterals	1208.4	19.5	6.8								
o/w: list largest two creditors	775.3	12.5	4.3								
EIB	452.7	7.3	2.5								
EBRD	322.6	5.2	1.8								
list of additional large creditors	285.8	4.6	1.6								
EU	285.8	4.6	1.6								
Bilateral Creditors 2/	328.6	5.3	1.8	31.3	18.0	18.3	18.5	0.2	0.1	0.1	0.1
Paris Club	304.4	4.9	1.7	31.3	17.0	17.4	17.5	0.2	0.1	0.1	0.1
o/w: list largest two creditors	261.5	4.2	1.5								
AFD	124.0	2.0	0.7								
JICA	137.5	2.2	0.8								
list of additional large creditors	0.0	0.0	0.0								
Non-Paris Club	24.2	0.4	0.1	0.0	0.9	0.9	0.9	0.0	0.0	0.0	0.0
o/w: list largest two creditors	24.2	0.4	0.1								
Government of Poland	22.0	0.4	0.1								
BGK Bank Poland	2.2	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
Commercial creditors	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
o/w: list largest two creditors	0.0	0.0	0.0								
list of additional large creditors	0.0	0.0	0.0								
Domestic	**2475.5**	**39.9**	**13.9**	**388.7**	**2704.6**	**3287.4**	**3831.0**	**2.2**	**14.6**	**16.2**	**17.1**
Held by residents, total	2475.1	39.9	13.9								
Held by non-residents, total	0.4	0.0	0.0								
T-Bills	1496.0	24.1	8.4	354.4	2215.3	2663.0	2932.1	2.0	11.9	13.1	13.1
Held by: central bank			0.0								
local banks			0.0								
local non-banks			0.0								
non-residents			0.0								
Bonds	894.6	14.4	5.0	16.9	447.2	609.9	888.6	0.1	2.4	3.0	4.0
Held by: central bank			0.0								
local banks			0.0								
local non-banks			0.0								
non-residents			0.0								
Loans*	85.0	1.4	0.5	17.5	42.1	14.5	10.3	0.1	0.2	0.1	0.0
Held by: central bank			0.0								
local banks			0.0								
local non-banks			0.0								
non-residents			0.0								
Memo items:	**93.6**	**1.5**	**0.5**								
Collateralized debt 4/	n/a	n/a	n/a								
o/w: Related	n/a	n/a	n/a								
o/w: Unrelated			0.0								
Contingent liabilities	93.6	1.5	0.5	0.0	0.5	0.5	0.5	0.0	0.0	0.0	0.0
o/w: Public guarantees	93.6	1.5	0.5	0.0	0.5	0.5	0.5	0.0	0.0	0.0	0.0
o/w: Other explicit contingent liabilities 5/	n/a	n/a	n/a								
Nominal GDP				18112.4	18933.1	20751.9	22880.3				

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

2/Some minor public debt may not be shown in the table due to confidentiality clauses/capacity constraints.

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

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

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

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

MACROECONOMIC OUTLOOK

4. Macroeconomic assumptions underlying the projections are consistent with the baseline in the Sixth Review of the ECF/EFF-supported program. The main changes relative to the previous DSA of November 2023 include a lower growth rate and higher non-interest current account deficit during 2023–28. In addition, the non-interest current account deficit is slightly larger in the long run, reflecting the worse-than-anticipated outcome in 2022 and subsequent slower improvement over the medium term. Additional financing has mostly been on concessional terms. Long run macroeconomic assumptions remain broadly unchanged with slightly higher inflation, higher fiscal revenue, and higher non-interest current account deficit. Economic performance is expected to remain solid over the medium term, with steady growth, moderate inflation, and a gradual narrowing of the current account deficit. Risks to the near-term outlook are significant and tilted to the downside as Moldova continues to grapple with persistent external and domestic headwinds. By contrast, an end to the Russia's invasion of Ukraine, progress in EU accession, and the recently announced EU Growth Plan worth €1.8 billion (10.4 percent of GDP in 2025) could provide a significant boost to confidence, investment, and growth.

- **Real GDP**. After a weak recovery in 2023 with growth at 0.7 percent, growth accelerated to 2.2 percent y-o-y in 2024H1, and is projected to reach 2.6 percent in 2024, supported by a continued gradual recovery of investment and private consumption on the back of rising real wages and strong consumer credit growth. Net exports have had a negative contribution, reflecting a lower harvest and agricultural prices, lower re-exports, and strong import demand. Medium-term real GDP growth is projected at 5 percent as in the previous DSA. The lower growth than the previous DSA during 2023–28 is mainly due the downward revision in real GDP growth from 2 percent to 0.7 percent in 2023, reflecting weaker-than-expected recovery of private consumption and investment; and from 3.9 percent to 2.6 percent in 2024, reflecting lower consumption and investment, and weaker net export projections.

- **Inflation**. Headline inflation declined in 2024H1 with lower food and regulated prices but picked up to 5.3 percent y-o-y in October driven by rising food prices. Annual inflation is now projected at 4.6 percent in 2024, in line with the NBM's latest projection and the baseline inflation forecast for 2025 remains at 5 percent as lower inflationary pressure from the core price index and fuel prices is offset by higher projected electricity prices. The GDP deflator (in US dollar terms) is higher than in the previous DSA during 2023-28 as result of higher-than-expected appreciation in 2023 and lower-than-expected depreciation in 2024.

- **Fiscal.** The fiscal deficit is projected at 4.4 percent of GDP in 2024, down from 5.2 percent in 2023. The authorities have prepared a second supplementary budget in November 2024 to reflect stronger-than-expected revenues, largely driven by buoyant wage and import (tobacco and vehicles) growth. While keeping total spending largely unchanged, the budget reallocated spending to reflect a mild under-execution of capital spending and increased current spending for the Health and Road Funds and wage payments, to cover mandatory payments due to a social assistance reform and to reduce the stock of paid-leave entitlements. The 2025 draft budget targets a deficit of 4 percent of GDP. The medium- and long-term revenues are higher than in the previous DSA as the revenue over-performance is expected to continue in 2025 and VAT taxes on imported vehicles is expected to start in 2026.

- **External sector.** The CA deficit widened to 14.3 percent of GDP in 2024H1 from 11.9 percent in 2023, reflecting lower re-exports of minerals to Ukraine and lower exports of locally-produced goods, vegetables, and oils. Import growth is expected to stay flat, with the drop in re-export activity more than compensated by a strong demand for other imports; remittances declined by 20 percent y-o-y in 2024H1. Net FDI inflows receded by almost half in 2024H1 due to a decline in the reinvestment of earnings and net liabilities, while currency and deposits bolstered the financial account. The CA deficit is expected to increase to 14.9 percent of GDP in 2024 due to reduced exports of goods and transfers and decline to 12.9 percent in 2025 with stronger services and income balances. The non-interest current account is expected to be higher in the medium and long-term than in the previous DSA as the result of a strong deterioration in the current account deficit of about 3 ppt of GDP in 2024 compared to the previous DSA and the assumption of a slow recovery over the medium term.

- **External borrowing.** The DSA assumes that contracted but undisbursed concessional loans will be fully disbursed over the medium-term as planned by the authorities. Commercial borrowings, with Moldova having graduated from IDA-eligible borrowing in 2021, are projected to rise over the longer term to finance the country's high development needs. This plays a key role in the DSA.[6] However, Moldova will continue to benefit from significant concessional and grant financing in the medium-term, driven in large part by the profile of the new concessional[7] borrowing. In the short-term, external financing for budget support —estimated at about $547 million in 2024—will be fully covered by the WB's Development Policy Operation (DPO) ($56 million), the European Union ($116 million), other development partners ($109 million), and ECF/EFF disbursements of about $268 million, all of which are to be disbursed for budget support.[8] Commitments for budget support for 2025 amount to $257 million, including $70 million from the World Bank and $76 million from the EU[9]. The baseline projections do not incorporate the recently announced EU Growth Plan worth €1.8 billion (10.4 percent of GDP in 2025), to be disbursed over 2025-27, of which €400 million are expected to be grants and the rest concessional loans.

- **The public debt-to-GDP ratio is expected to increase modestly in 2024–25 and decline gradually to about 35 percent in the medium term.** An increase in public debt in the short term reflects a still low GDP growth and high fiscal primary deficit as the economy is still recovering from the 2022 shocks. However, public debt is expected to decline in the medium

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[6] 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.

[7] The grant element of most financing going forward is lower than the usual benchmark of 35 percent, which makes a distinction between concessional and non-concessional debt.

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

[9] The external financing for budget support referenced in this paragraph excludes RSF disbursements of $58 million in 2024 and $115 million in 2025, as RSF disbursements are not used for closing the financing gap but are used to substitute more expensive other budget financing.

term as the authorities continue the fiscal consolidation efforts as currently envisaged and as growth accelerates. From 2030 onward, public debt is expected to increase, reflecting the rise in domestic debt service as the authorities rely more on domestic debt to finance the gross financing need. Domestic borrowing is assumed to be balanced in 2024 with significant financing coming from external sources. Demand for government securities is expected to improve from 2025 onwards. The weighted average interest rate on short-term debt is assumed to be around 5 percent in 2024 and is projected to remain there over the medium term. Once again, the baseline projections do not incorporate the recently announced EU Growth Plan worth €1.8 billion, to be disbursed over 2025–27.

Text Table 3. Moldova: Key Macroeconomic Assumptions

(Current DSA vs. DSA November 2023)

	2020-2022	2023-2028	2029-2033	2023-33
Real GDP growth (percent)				
Curent DSA	0.3	3.5	5.0	4.2
Previous DSA	0.2	4.3	5.0	4.6
Inflation (GDP deflator, in US dollar terms)				
Curent DSA	7.4	6.1	2.6	4.5
Previous DSA	7.7	3.8	1.9	3.0
Total Revenue (percent of GDP)[1]				
Curent DSA	31.2	33.7	34.9	34.2
Previous DSA	31.2	32.1	33.7	32.8
Current Account Deficit (non-interest, in percent of GDP)				
Curent DSA	11.8	11.3	9.7	10.6
Previous DSA	11.8	9.3	6.0	7.8

Source: Moldova authorities and Staff calculations.

[1] Total revenue, excluding grants.

5. **The debt sustainability framework's realism tools suggest that the baseline projections are reasonable** (Figures 3 and 4)**.** There are deviations in the evolution of the projection of external and PPG debt to GDP ratios for the current and previous DSA vintages, and from the DSA from 5 years' past. In terms of projections, the current DSA deviates from the previous DSA mainly due to the incorporation of revised macroeconomic and borrowing assumptions. For the **external public debt**, projected debt ratios are slightly higher in the near term, reflecting increased donor support. The five-year projected change in **overall external debt ratio** is similar to the five-year historical change. However, the five-year projected change in PPG external debt is lower than the five-year historical change and is due mostly to exchange rate movements, changes in the growth path, and other residuals. For **total public debt**, the moderation in the projected debt ratios to GDP in the medium term is driven mainly by stronger growth, whereas the five-year historical change displays an increase in public debt due to wider primary deficits and lower growth. Growth is expected to rebound in 2024 to 2.6 percent and to reach an average of 5 percent in the medium-term. The projected 3-year adjustment in the primary deficit is similar to those observed in historical data from peers with Fund-supported programs (Figure 4) and is consistent with the authorities'

commitment with continued fiscal consolidation. However, the realism tools suggest some degree of growth optimism (Figure 4, top right chart), but to a lesser extent compared to the previous DSA.

6. **The RSF arrangement is supporting the authorities' plan in building climate resilience.** The baseline includes the authorities' latest investment plans, including current climate-related spending, financed by external borrowing with support from multilateral and bilateral lenders; commercial borrowing will play a larger role over the longer-term. The 2020 Nationally Determined Contribution (NDC) puts total adaptation investment needs at 2.5 percent of GDP per year over the next 10–15 years; the ongoing RSF arrangement supports this effort through fiscal reforms that report on climate spending allocations at the budget stage and report on climate-related spending execution.[10] Efforts will continue to secure concessional financing in this area and investment assumptions will be updated as progress is made. Meanwhile, the RSF arrangement will help through three RMs geared toward sustainable climate financing mobilization and financial sector resilience, although the exact impact will only become clearer once the measures are undertaken. A climate-resilient public investment management (PIM) system would also help address under-execution of public investment and attract other sources of finance.

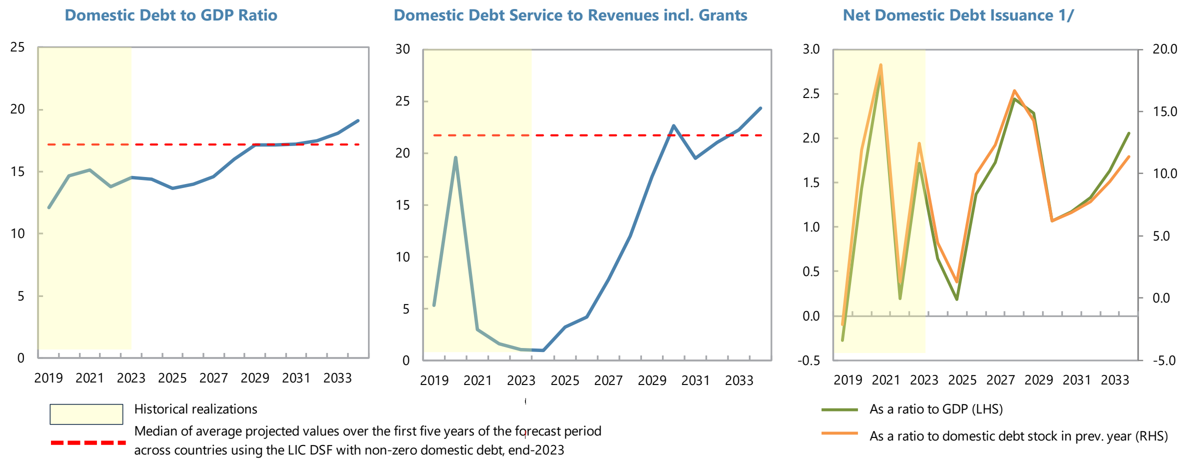
7. **Under the baseline, domestic public debt is projected at around 17 percent of GDP in the medium term.** Over the past five years, domestic public debt increased slightly from 12 percent of GDP in 2019 to around 14 percent of GDP in 2023 after reaching a peak of 15 percent of GDP in 2021 (Text Figure 2). In the medium term, domestic public debt is projected to be slightly below the median across all LIC DSF users, highlighting the authorities' plan to issue more domestic debt to increase resilience to external shocks. Commercial banks have excess liquidity that could be absorbed through domestic issuance. The domestic-debt-service-to-revenue ratio shows an upward trend and is projected to reach almost 25 percent in 2034, above the median across all LIC DSF users of 21.7 percent and reflecting realistic assumptions on the maturity of domestic debt.[11] The net domestic issuance is more volatile and ranges from to 0 to 2.7 percent of GDP.

[10] At the RSF program request, the IMF Selected Issues Paper on Opportunities and Challenges of Climate Adaptation Policies in Moldova used the Fund's DIGNAD model to highlight the need for additional investment to be financed through grants and concessional loans, which could reduce the peak in public debt as a percent of GDP by almost 10 ppts compared to a scenario where this investment is entirely financed with domestic and external commercial debt.

[11] The one-off increase in 2020 is due to lower revenues but also high domestic public debt service. The current DSA assumes that over the next 10 years, the share in new domestic debt issuance is around 75 percent rather than 50 percent in the previous DSA.

Text Figure 2. Moldova: Indicators of Domestic Public Debt, 2019–2034

(percent)



Borrowing Assumptions (Average over 10-year Projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	22%
Short-term	78%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	0.3%
Avg. maturity (incl. grace period)	3
Avg. grace period	1
Domestic short-term debt	
Avg. real interest rate	-0.4%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

8. **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 real GDP growth, remittances, international reserves, world growth, and the World Bank CPIA score,[12]confirms that Moldova's debt carrying capacity is classified to be strong, which is unchanged from the previous three DSA rounds. Applicable thresholds and benchmark are presented in Text Table 4.[13] The benchmark for the present value (PV) for public debt is 70 percent of GDP and the threshold for the PV of PPG external debt is 55 percent of GDP.

[12] The CI is computed based on the October 2024 WEO and World Bank's 2023 CPIA vintages, using 10-year averages of theses variables, including 5 years of historical data and 5 years of projections.

[13] Moldova's CI is 3.08, which corresponds to a strong debt-carrying capacity based on the IMF's October 2024 World Economic Outlook and World Bank's 2023 CPIA.

9. **The DSA includes a stress test that follows standardized settings.** All the PPG external debt indicators remain below the policy relevant thresholds (Table 3 and Figure 1) The standardized stress test indicates a breach of public debt thresholds beyond 2028 (Table 4 and Figure 2).[14] Moldova does not have prominent economic features such as significant reliance on commodity exports, nor market financing that would require additional tailored stress tests or other modules. 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.

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 3.08	Strong 3.19	Strong 3.07

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

10. **Under the baseline scenario and alternative scenarios, all external debt indicators continue to remain below their policy-relevant thresholds (Table 1, Figure 1).**[15] During 2024–29, new external

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

[15] The baseline includes the authorities' current investment plans, including current climate-related spending, financed by the current external borrowing plans with support from multilateral and bilateral lenders, with commercial borrowing playing a larger role over the longer-term. While the climate-related elements of this cannot currently be separated out or aggregated, the ongoing RSF arrangement would support efforts to strengthen the climate public investment and budgeting processes, allowing a clearer picture of the existing climate efforts and additional needs. RSF disbursements should also help reduce the present value of debt and debt-servicing burdens than otherwise would be the case by substituting for more expensive domestic debt.

financing will consist primarily of borrowing from multilateral lenders, while commercial borrowing is expected to start playing a larger role in the long-term from 2030. The present value of PPG external debt is projected at around 18 percent of GDP in 2024. The ratio will remain well below the 55 percent of GDP threshold under the baseline scenario throughout the projection period. Similarly, debt service indicators remain below their respective thresholds. Improvements in debt-management practices envisaged under the authorities' reforms supported by the ECF/EFF program and development of the domestic debt market will give further resilience to shocks affecting external debt service needs. A tailored stress test for the contingent liability shock also does not cause any breach of relevant thresholds. Under the most extreme scenario (export shock), most PPG debt indicators show an increase in their values but remain well below their indicative thresholds. These outcomes hinge on continued prudent fiscal policy and sound macroeconomic, public investment, and debt management policies envisaged under the ECF/EFF program.

11. 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, the private external-debt-to-GDP ratio improved to 40 percent of GDP in 2023, and is expected to further decline after 2029, supported by strong real and nominal growth and by a larger relative contribution of FDIs and other non-debt creating flows to the current account financing.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

12. Under the baseline, indicators of the overall public debt burden are below the benchmark, but risks remain. Under the baseline, the PV of the total PPG debt-to-GDP ratio is estimated at around 32 percent of GDP in 2023 and is expected to rise to around 35 percent of GDP in 2033, remaining below the 70 percent of GDP benchmark in the medium-to-long term (Figure 2).

13. The ratio of PV of total PPG debt-to-GDP ratio exceeds its 70 percent of GDP benchmark under the real GDP growth shock. Over the long-term, under the possible real GDP growth shock scenario[16] it remains elevated, breaching the threshold starting from 2028, as the country accumulates higher debt to finance larger fiscal and current account deficits. Such a scenario highlights the risks to debt sustainability faced by the authorities in the absence of needed reforms. A significant contingent liabilities shock (to SOEs and PPPs and/or financial market distress) would also increase debt levels notably, although 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 recent shocks of the pandemic and other conflicts.

[16] The shock occurs in the second and third years of the projection period and is at a level equivalent to one standard deviation below its 10-year historical average.

RISK RATING AND VULNERABILITIES

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

- **Debt burden indicators for PPG external debt remain well below the indicative debt thresholds, under both the standardized and tailored stress tests.** While high private external debt in Moldova continues to pose risks to external debt sustainability, risk of *external* public debt distress continues to be 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.

- **Moldova's overall public debt dynamics are also projected to remain on a sustainable path under the baseline scenario but are subject to vulnerabilities in a growth shock.** Assuming the economy contracts with lingering effects, the public debt ratio would exceed its benchmark by 2028 leading to an *overall* public debt at *moderate* risk of distress. This could be particularly challenging given large domestic borrowing needs in the medium term but would likely be mitigated by the materialization of external financing from multilateral and bilateral official creditors on concessional terms.

- **Risks to the debt outlook remain tilted to the downside.** Further escalation of the Russia's invasion of Ukraine continues to pose security risks for Moldova, and a new wave of refugees or deterioration of economic conditions in Transnistria would put additional pressure on government finances. New energy shocks, for example, related to the expiration of the Ukraine-Gazprom gas transit agreement at end-2024 could weaken Moldova's economic outlook and create fiscal and balance of payments pressures[17]. Political tensions, including surrounding the parliamentary elections next year, could jeopardize reform momentum and undermine donor funding. Extreme weather events exacerbated by climate change, particularly droughts and floods, will continue to increase over the medium and long terms and could affect key sectors such as agriculture and impose significant losses, leading to increased debt vulnerabilities, particularly if adaptation measures are not undertaken. On the upside, faster-than-anticipated recovery of domestic demand and faster growth in Moldova's main trade partners will boost the recovery in the short term. In the medium term, perspectives for EU accession[18] and continued reforms under the EU Growth plan, and the current ECF/EFF and RSF arrangements offer a unique opportunity to accelerate sustainable economic and social development. Good progress on these reforms combined with other debt management measures could also help attract the

[17] An audit of Moldovagaz's debts to Gazprom was completed in September 2023. But uncertainty remain regarding the audit.

[18] EU accession negotiations started formally in June 2024 following a European Council decision on Moldova's candidacy in December 2023. Additionally, discussions of the reform agenda and financing under the EU's 2025–27 Growth Plan for Moldova are underway.

necessary financing to sustainably increase climate-related investment to meet climate adaptation needs.

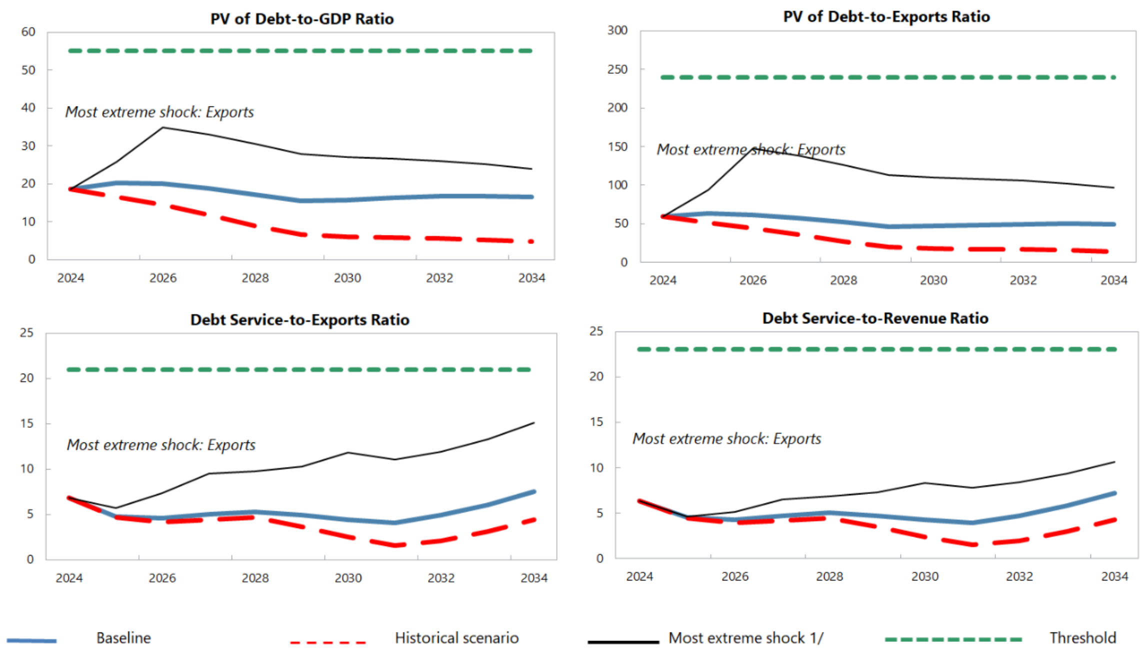
- **Mitigating debt risk requires sound macroeconomic management and sustained structural reforms.** The authorities should continue to maintain fiscal discipline and fiscal risk management. As the country is expected to accumulate debt to finance fiscal and current account deficits, strong and sustained political commitment is needed to deliver on fiscal policy with prudent deficit levels, revenue mobilization, enhanced public investment planning and execution, and improved debt and fiscal risk management are imperative to safeguard Moldova's debt sustainability. In the near and medium-term, the authorities should continue to rely on concessional financing consistent with the ECF/EFF-supported program; public investment management should focus on priority projects with high growth and social returns. Contingent liability risks—including from SOEs—should be monitored carefully. Advancing structural reforms, including to help mitigate long-term climate change-related risks, remain key to increasing the economy's growth potential and resilience, reducing vulnerability to shocks.

- **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, the authorities are undertaking steps 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 domestic debt market. The new platform for retail investors is a good step in that direction. These will help to reduce the PPG domestic debt roll-over and interest rate risks.

AUTHORITIES' VIEW

15. The authorities broadly agreed with staff's assessment of Moldova's public and external debt and recommendations for macroeconomic, public investment, and debt management, as well as the role the RSF arrangement could play in mobilizing critical financing for climate efforts. They broadly concurred with staff's debt projections and risk ratings assessment. They recognize the importance of fiscal discipline and the need to manage fiscal risks. Importantly, they remain committed to the use of concessional and grant resources in the near term while they continue to prepare for greater commercial borrowing in the medium term through the issuance of Eurobonds. They emphasize that the new platform for retail investors will help increase domestic debt issuance.

Figure 1. Moldova: Indicators of Public Guaranteed External Debt Under Alternative Scenarios, 2024–2034



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

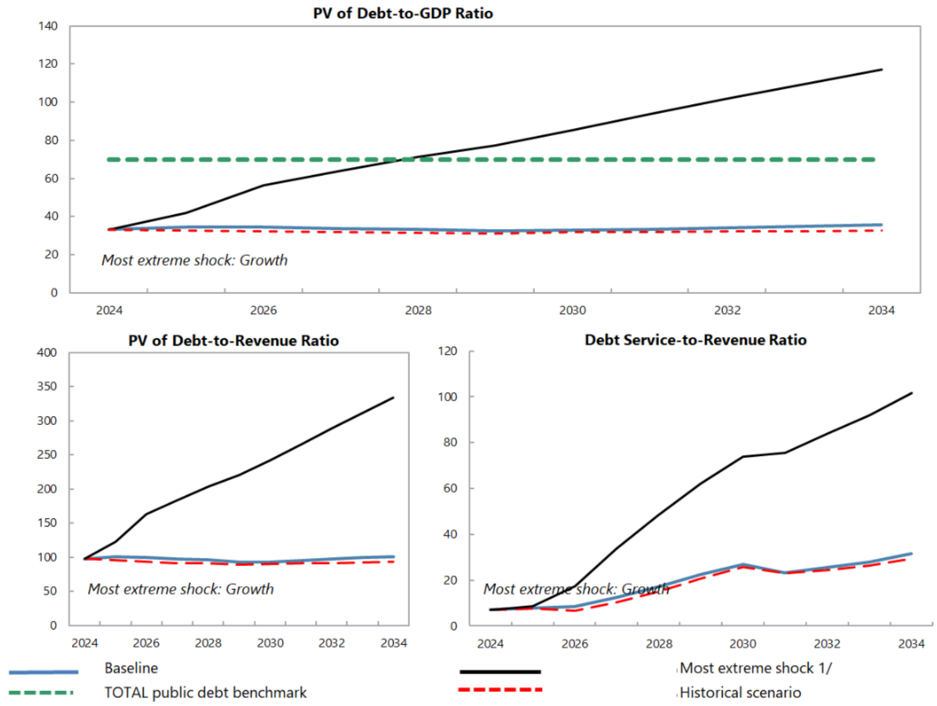
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

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	4.3%	4.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	15	15
Avg. grace period	3	3

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. 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, 2024–2034



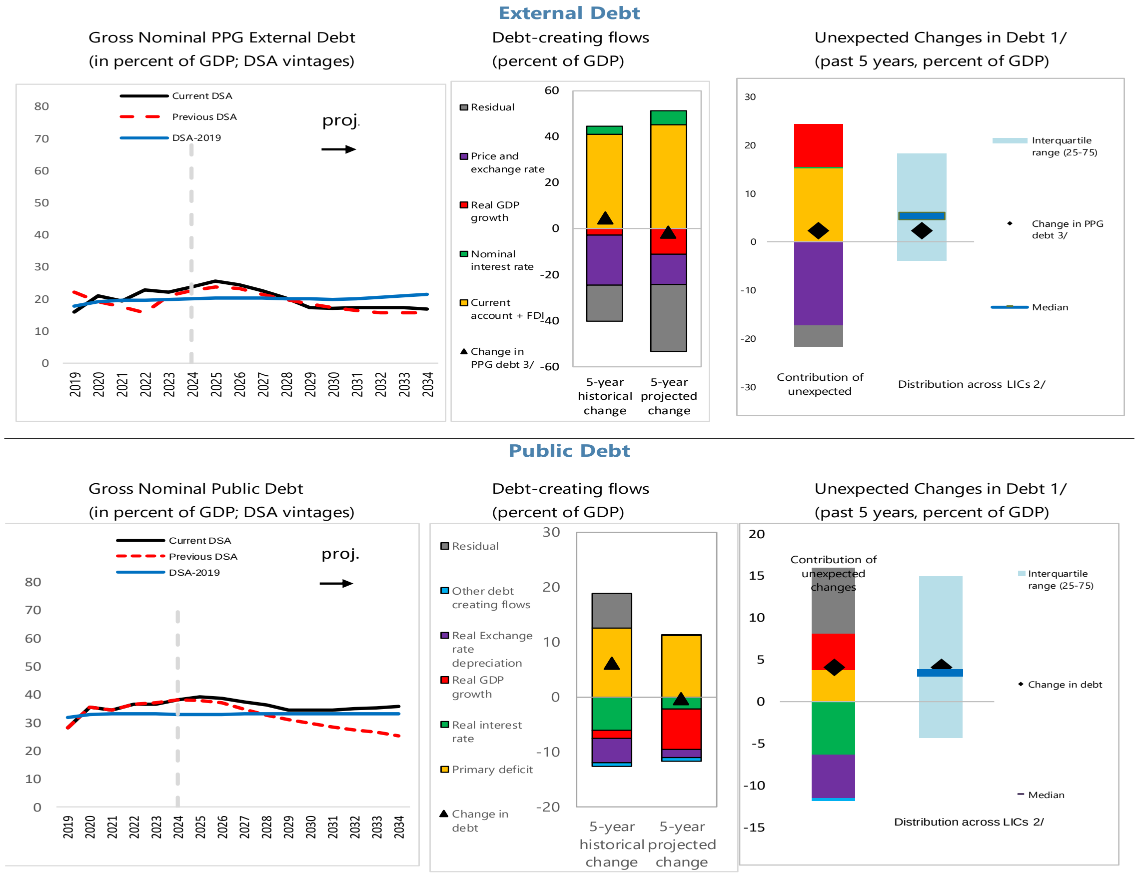
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	32%	32%
Domestic medium and long-term	15%	15%
Domestic short-term	53%	53%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.3%	4.3%
Avg. maturity (incl. grace period)	15	15
Avg. grace period	3	3
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.3%	0.3%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	-0.4%	-0.4%

* 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 2034. 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



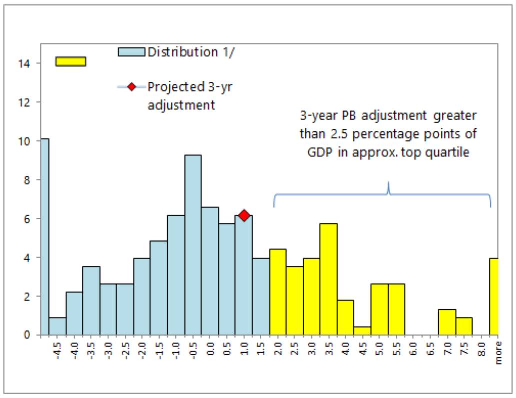
1/ Difference between anticipated and actual contributions on debt ratios.

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.

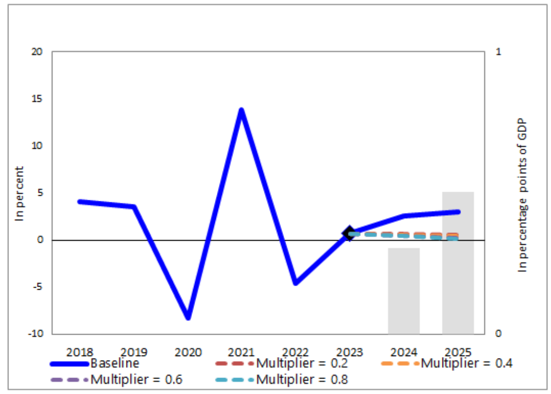
Figure 4. Moldova: Realism Tools

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



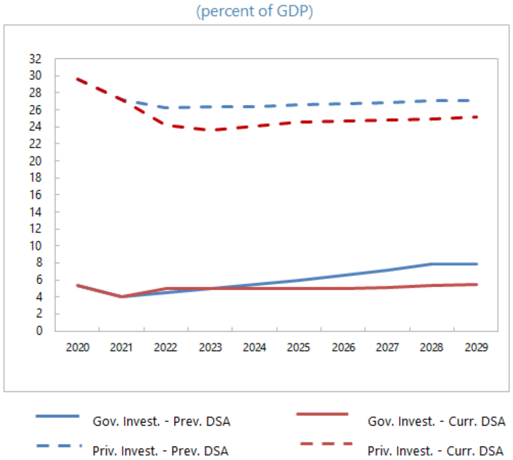
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

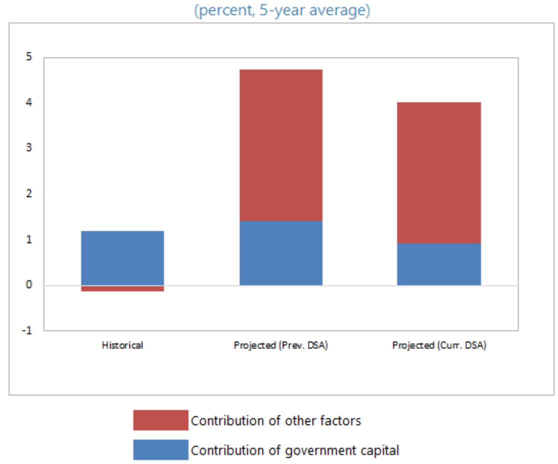
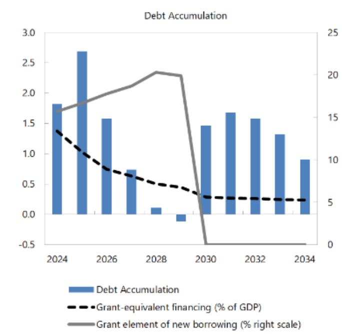


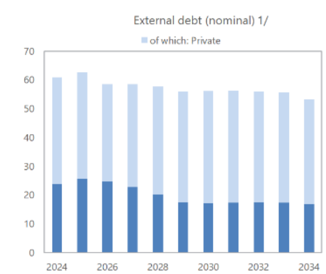
Table 1. Moldova: External Debt Sustainability Framework, Baseline Scenario, 2021–2044

(in percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2044	Historical	Projections
External debt (nominal) 1/	63.3	66.5	62.2	61.0	62.6	58.6	58.5	57.6	56.0	56.1	56.2	56.0	55.7	53.3	40.7	69.4	57.4
of which: public and publicly guaranteed (PPG)	19.4	22.8	22.1	23.8	25.6	24.6	22.8	20.3	17.5	17.2	17.4	17.5	17.3	16.8	10.8	20.4	20.1
Change in external debt	-6.7	3.1	-4.2	-1.2	1.6	-4.0	-0.1	-0.9	-1.6	0.0	0.2	-0.2	-0.4	-2.4	-0.9		
Identified net debt-creating flows	-1.4	10.0	1.0	11.9	8.9	7.1	6.5	5.9	5.4	5.4	5.4	5.4	5.4	5.4	6.1	3.2	6.6
Non-interest current account deficit	11.8	16.6	10.9	13.7	11.6	10.8	10.4	10.1	9.7	9.8	9.8	9.8	9.8	9.8	10.0	8.5	10.5
Deficit in balance of goods and services	27.1	29.6	24.1	24.3	23.5	22.7	22.1	21.4	20.8	20.8	20.8	20.8	20.8	20.8	20.8	25.9	21.7
Exports	30.7	41.3	35.4	31.1	32.1	32.3	32.5	32.9	33.5	33.5	33.5	33.5	33.5	33.5	33.5		
Imports	57.8	70.8	59.5	55.4	55.6	54.9	54.6	54.4	54.3	54.3	54.3	54.3	54.3	54.3	54.3		
Net current transfers (negative = inflow)	-12.8	-11.9	-11.0	-8.2	-8.4	-8.3	-8.2	-8.0	-7.9	-7.9	-7.9	-7.9	-7.9	-7.9	-7.9	-12.3	-8.0
of which: official	-0.8	-0.8	-2.3	-0.6	-0.4	-0.4	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		
Other current account flows (negative = net inflow)	-2.5	-1.0	-2.2	-2.4	-3.5	-3.5	-3.5	-3.4	-3.2	-3.1	-3.1	-3.1	-3.1	-3.1	-2.8	-5.0	-3.2
Net FDI (negative = inflow)	-2.7	-3.7	-2.5	-1.5	-2.3	-2.5	-2.5	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.5	-2.5
Endogenous debt dynamics 2/	-10.5	-2.9	-7.4	-0.3	-0.5	-1.2	-1.4	-1.5	-1.6	-1.7	-1.7	-1.7	-1.7	-1.7	-1.3	-2.8	-1.4
Contribution from nominal interest rate	0.6	0.6	1.0	1.2	1.3	1.3	1.2	1.2	1.0	0.9	0.9	0.9	0.9	0.9	0.7		
Contribution from real GDP growth	-8.2	2.8	-0.4	-1.5	-1.7	-2.5	-2.7	-2.7	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.0		
Contribution from price and exchange rate changes	-2.9	-6.2	-8.0	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	-5.3	-6.9	-5.3	-13.1	-7.2	-11.1	-6.5	-6.8	-7.0	-5.3	-5.2	-5.6	-5.8	-7.8	-6.9	-4.2	-7.4
of which: exceptional financing	-0.6	-2.2	-2.1	-1.1	-1.0	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5		
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	...	...	18.4	18.5	20.3	19.9	18.7	17.1	15.4	15.7	16.3	16.7	16.8	16.5	11.3		
PV of PPG external debt-to-exports ratio	...	...	51.9	59.4	63.1	61.7	57.6	51.9	46.0	47.0	48.6	49.8	50.2	49.4	33.8		
PPG debt service-to-exports ratio	4.9	3.4	4.9	6.8	4.8	4.6	5.0	5.3	4.9	4.5	4.1	4.9	6.1	7.5	8.5		
PPG debt service-to-revenue ratio	4.8	4.4	5.5	6.4	4.5	4.3	4.7	5.0	4.7	4.3	3.9	4.7	5.8	7.2	8.1		
Gross external financing need (Million of U.S. dollars)	4599.0	5972.2	5642.8	6580.2	6021.9	5910.9	5598.9	5940.9	6181.3	6354.3	6714.6	7255.3	7734.4	8286.3	15925.3		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	13.9	-4.6	0.7	2.6	3.0	4.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	2.3	4.6
GDP deflator in US dollar terms (change in percent)	4.3	10.9	13.6	6.5	1.5	5.0	5.0	5.0	5.0	1.9	1.9	1.9	1.9	1.9	1.9	4.0	3.4
Effective interest rate (percent) 4/	1.0	1.1	1.6	2.1	2.2	2.3	2.3	2.2	2.0	1.8	1.8	1.8	1.8	1.7	1.7	1.1	2.0
Growth of exports of G&S (US dollar terms, in percent)	30.3	42.5	-1.9	-3.9	7.7	10.2	11.2	11.7	12.0	7.1	7.1	7.1	7.1	7.1	7.1	8.1	7.7
Growth of imports of G&S (US dollar terms, in percent)	33.7	29.7	-3.9	1.8	4.8	8.4	9.6	9.8	10.0	7.1	7.1	7.1	7.1	7.1	7.1	6.5	7.2
Grant element of new public sector borrowing (in percent)	...	...	...	15.7	16.7	17.8	18.7	20.3	19.9	0.0	0.0	0.0	0.0	0.0	0.0	...	9.9
Government revenues (excluding grants, in percent of GDP)	31.0	31.7	31.8	33.4	33.9	34.2	34.5	34.6	34.8	34.9	34.9	34.9	34.9	34.9	34.8	30.1	34.5
Aid flows (in Million of US dollars) 5/	272.3	507.6	567.1	133.8	72.2	71.6	75.0	78.8	83.2	85.2	86.7	88.2	89.7	91.3	119.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.4	1.0	0.7	0.6	0.5	0.4	0.3	0.3	0.3	0.2	0.2	0.2	...	0.5
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	28.7	24.2	28.8	32.4	40.0	43.4	12.4	11.0	9.9	9.1	8.4	5.6	...	22.6
Nominal GDP (Million of US dollars)	13,694	14,493	16,581	18,112	18,933	20,752	22,880	25,233	27,824	29,790	31,894	34,148	36,560	39,143	77,468		
Nominal dollar GDP growth	18.8	5.8	14.4	9.2	4.5	9.6	10.3	10.3	10.3	7.1	7.1	7.1	7.1	7.1	7.1	6.4	8.1
Memorandum items:																	
PV of external debt 7/	...	...	58.4	55.6	57.2	53.9	54.5	54.4	54.0	54.6	55.1	55.2	55.1	53.0	41.2		
In percent of exports	...	...	165.2	178.7	178.3	167.0	167.4	165.2	161.2	163.1	164.7	165.0	164.8	158.4	123.2		
Total external debt service-to-exports ratio	62.1	50.6	58.2	67.6	55.9	46.8	35.4	32.7	29.5	26.6	25.7	26.3	26.0	25.9	23.4		
PV of PPG external debt (in Million of US dollars)			3046.3	3348.1	3834.5	4132.4	4285.1	4309.5	4278.8	4685.7	5185.5	5689.2	6137.7	6468.9	8767.4		
(PVt-PVt-1)/GDPt-1 (in percent)				1.8	2.7	1.6	0.7	0.1	-0.1	1.5	1.7	1.6	1.3	0.9	0.4		
Non-interest current account deficit that stabilizes debt ratio	18.5	13.5	15.2	15.0	10.0	14.9	10.5	11.0	11.3	9.7	9.6	10.0	10.1	12.2	10.9		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

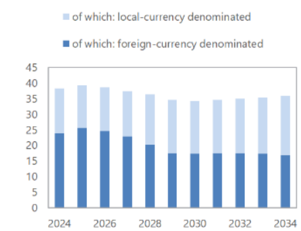
Table 2. Moldova: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–2044

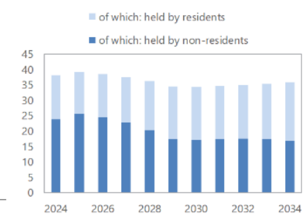
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	34.6	36.6	36.6	38.2	39.3	38.6	37.4	36.3	34.6	35.9	40.6	33.3	36.3
of which: external debt	19.4	22.8	22.1	23.8	25.6	24.6	22.8	20.3	17.5	16.8	10.8	20.4	20.1
Change in public sector debt	-1.0	2.0	0.1	1.6	1.1	-0.7	-1.2	-1.1	-1.7	0.5	0.3		
Identified debt-creating flows	-3.5	-0.1	-1.7	1.6	1.0	-0.7	-1.2	-1.2	-1.7	0.5	0.3	0.7	-0.1
Primary deficit	1.8	2.2	3.4	3.1	2.6	2.2	1.8	1.6	1.4	2.1	2.3	1.5	2.0
Revenue and grants	32.0	33.3	34.0	34.1	34.2	34.5	34.8	34.9	35.1	35.1	34.9	31.3	34.9
of which: grants	1.0	1.6	2.2	0.7	0.4	0.3	0.3	0.3	0.3	0.2	0.2		
Primary (noninterest) expenditure	33.8	35.6	37.4	37.2	36.8	36.7	36.6	36.5	36.5	37.2	37.2	32.7	36.9
Automatic debt dynamics	-5.2	-2.3	-4.6	-1.0	-1.5	-2.8	-2.9	-2.7	-3.0	-1.6	-1.9		
Contribution from interest rate/growth differential	-5.5	-1.8	-1.7	-1.4	-1.7	-2.1	-2.2	-2.1	-2.0	-1.6	-1.9		
of which: contribution from average real interest rate	-1.1	-3.5	-1.4	-0.5	-0.6	-0.4	-0.4	-0.3	-0.3	0.1	0.0		
of which: contribution from real GDP growth	-4.3	1.7	-0.3	-0.9	-1.1	-1.7	-1.8	-1.8	-1.7	-1.7	-1.9		
Contribution from real exchange rate depreciation	0.2	-0.5	-3.0	0.4	0.2	-0.7	-0.7	-0.7	-1.1	0.0	0.0		
Other identified debt-creating flows	-0.1	0.0	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	-0.1
Privatization receipts (negative)	-0.1	0.0	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	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	0.0	0.0		
Residual	2.4	2.1	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	32.1	33.2	34.3	34.3	33.7	33.4	32.4	35.5	41.1		
PV of public debt-to-revenue and grants ratio	...	...	94.4	97.4	100.3	99.4	96.9	95.7	92.5	101.2	117.6		
Debt service-to-revenue and grants ratio 3/	7.6	5.8	6.1	7.2	7.7	8.4	12.5	17.1	22.4	31.6	37.4		
Gross financing need 4/	4.2	4.2	5.0	5.0	5.2	5.0	6.1	7.5	9.2	13.2	15.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	13.9	-4.6	0.7	2.6	3.0	4.4	5.0	5.0	5.0	5.0	5.0	2.3	4.6
Average nominal interest rate on external debt (in percent)	0.9	0.9	1.3	1.9	1.6	1.9	2.1	2.3	2.4	3.9	5.2	1.1	2.6
Average real interest rate on domestic debt (in percent)	-3.7	-14.4	-6.5	-2.5	-3.7	-3.5	-3.2	-2.8	-2.4	-1.2	-1.3	-2.0	-2.3
Real exchange rate depreciation (in percent, + indicates depreciation)	1.3	-2.8	-13.4	...	...	...	...	...	...	...	...	-1.2	...
Inflation rate (GDP deflator, in percent)	6.4	18.9	8.7	4.0	5.5	5.5	5.5	5.5	5.5	5.0	5.0	7.5	5.1
Growth of real primary spending (deflated by GDP deflator, in percent)	7.4	0.5	5.9	1.9	2.0	4.2	4.7	4.8	4.9	5.0	5.0	3.8	4.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.8	0.3	3.3	1.5	1.5	2.9	3.0	2.7	3.1	1.6	2.0	2.1	2.1
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	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 stabilize 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, 2024–2034

(in percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
					PV of debt-to GDP ratio						
Baseline	18	20	20	19	17	15	16	16	17	17	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	18	17	14	12	9	7	6	6	6	5	5
B. Bound Tests											
B1. Real GDP growth	18	22	25	23	21	19	20	20	21	21	21
B2. Primary balance	18	21	21	20	19	17	18	18	19	19	18
B3. Exports	18	26	35	33	31	28	27	27	26	25	24
B4. Other flows 3/	18	23	25	24	22	20	20	20	20	20	19
B5. Depreciation	18	26	17	16	14	13	14	15	16	17	17
B6. Combination of B1-B5	18	27	27	25	23	20	21	21	21	21	21
C. Tailored Tests											
C1. Combined contingent liabilities	18	24	25	25	24	22	23	24	24	24	24
Threshold	55	55	55	55	55	55	55	55	55	55	55
					PV of debt-to-exports ratio						
Baseline	59	63	62	58	52	46	47	49	50	50	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	59	52	45	36	27	20	18	17	17	16	14
B. Bound Tests											
B1. Real GDP growth	59	63	62	58	52	46	47	49	50	50	49
B2. Primary balance	59	64	66	63	57	52	53	54	56	56	55
B3. Exports	59	93	147	138	126	113	110	108	106	102	97
B4. Other flows 3/	59	71	78	73	66	59	59	59	59	58	57
B5. Depreciation	59	63	42	39	35	30	33	36	38	40	40
B6. Combination of B1-B5	59	84	70	78	70	62	62	63	64	64	62
C. Tailored Tests											
C1. Combined contingent liabilities	59	74	78	76	72	66	68	70	72	72	71
Threshold	240	240	240	240	240	240	240	240	240	240	240
					Debt service-to-exports ratio						
Baseline	7	5	5	5	5	5	4	4	5	6	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	7	5	4	4	5	4	3	2	2	3	4
B. Bound Tests											
B1. Real GDP growth	7	5	5	5	5	5	4	4	5	6	8
B2. Primary balance	7	5	5	5	6	5	5	5	6	7	8
B3. Exports	7	6	7	9	10	10	12	11	12	13	15
B4. Other flows 3/	7	5	5	6	6	6	6	6	6	7	9
B5. Depreciation	7	5	5	4	5	4	3	2	3	5	6
B6. Combination of B1-B5	7	5	6	6	7	7	6	6	7	8	10
C. Tailored Tests											
C1. Combined contingent liabilities	7	5	5	6	6	6	5	5	6	7	8
Threshold	21	21	21	21	21	21	21	21	21	21	21
					Debt service-to-revenue ratio						
Baseline	6	5	4	5	5	5	4	4	5	6	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	6	4	4	4	4	3	2	2	2	3	4
B. Bound Tests											
B1. Real GDP growth	6	5	5	6	6	6	5	5	6	7	9
B2. Primary balance	6	5	4	5	5	5	5	4	5	6	8
B3. Exports	6	5	5	7	7	7	8	8	8	9	11
B4. Other flows 3/	6	5	5	5	6	6	6	5	6	7	8
B5. Depreciation	6	6	5	5	5	5	3	3	4	6	7
B6. Combination of B1-B5	6	5	6	6	6	7	6	5	6	8	9
C. Tailored Tests											
C1. Combined contingent liabilities	6	5	5	5	6	6	5	5	6	7	8
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, 2024–2034
(in percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	33	34	34	34	33	32	33	33	34	35	36
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	33	33	32	32	32	31	32	32	32	32	33
B. Bound Tests											
B1. Real GDP growth	33	42	56	64	**71**	**77**	**85**	**94**	**102**	**110**	**117**
B2. Primary balance	33	36	37	37	36	35	35	36	36	37	38
B3. Exports	33	39	48	47	46	44	43	43	42	42	42
B4. Other flows 3/	33	37	40	39	38	37	37	37	37	38	38
B5. Depreciation	33	35	33	29	27	24	21	20	18	16	14
B6. Combination of B1-B5	33	35	37	38	40	40	42	44	46	48	50
C. Tailored Tests											
C1. Combined contingent liabilities	33	46	45	44	43	42	42	42	43	43	44
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	97	100	99	97	96	93	93	95	97	99	101
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	97	96	94	91	91	89	90	91	91	92	93
B. Bound Tests											
B1. Real GDP growth	97	122	163	183	204	220	242	266	289	311	333
B2. Primary balance	97	104	108	105	104	100	100	102	104	106	108
B3. Exports	97	115	140	135	132	125	122	121	120	120	119
B4. Other flows 3/	97	108	115	111	110	105	104	105	106	107	108
B5. Depreciation	97	104	94	85	77	67	61	56	51	46	41
B6. Combination of B1-B5	97	102	108	110	113	114	119	125	131	136	142
C. Tailored Tests											
C1. Combined contingent liabilities	97	135	132	127	124	119	119	120	121	123	124
Debt Service-to-Revenue Ratio											
Baseline	7	8	8	12	17	22	27	23	26	28	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	7	8	7	10	15	21	26	23	24	26	29
B. Bound Tests											
B1. Real GDP growth	7	9	17	34	48	62	74	75	84	92	102
B2. Primary balance	7	8	11	16	20	25	29	26	28	30	34
B3. Exports	7	8	9	14	19	25	31	27	29	31	35
B4. Other flows 3/	7	8	9	13	18	23	28	25	27	29	33
B5. Depreciation	7	8	9	9	16	20	24	20	21	23	26
B6. Combination of B1-B5	7	8	9	15	22	29	35	32	36	39	43
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	27	25	27	30	33	29	30	32	35

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.

REPUBLIC OF MOLDOVA

December 2, 2024

SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCY AND SUSTAINABILITY FACILITY—UPDATE NOVEMBER 7, 2024

This second update to the RSF Assessment Letter—Moldova[1] *(dated November 1, 2023) highlights relevant changes that have occurred since the issuance of the first update Assessment Letter (May 22, 2024).*

A. Country Vulnerability to Climate Change, Including Human, Social and Economic Costs

1. Recent extreme weather underscores Moldova's vulnerability to climate change. The spring of 2024 in the Republic of Moldova was unusually warm, with average air temperatures ranging from +11.5 to +13.3°C, significantly above normal. The summer followed suit, featuring anomalously high temperatures, with 18–26 days recording maximums of +39.5 to +40.9°C—far exceeding the typical 3–11 days. Such extreme conditions, noted in historical records from the past 20–40 years, have been observed only once every 10–30 years. As a result, this has led to severe drought conditions in certain regions of the country, severely affecting the production of key agricultural crops. In response, the Government has approved the allocation of 100 million lei to partially compensate those affected by the severe drought and heat. Farmers who experienced at least a 60-percent loss in maize harvests or at least a 70-percent loss in wheat harvests will be eligible for compensation, with a maximum limit of 500,000 lei per applicant. With as much as 80 percent of Moldova's poor population living in rural areas, and the majority of these deriving their income and food from the agriculture sector, climate-induced extreme weather events risk triggering increased poverty and food insecurity.

[1] See World Bank RSF Assessment Letter in Moldova - 2023 - Staff Report for the Article IV Consultation, Fourth Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements, Request for Extension and Rephasing of the Arrangements, and Request for an Arrangement Under the Resilience and Sustainability Facility, November 21, 2023

B. Government Policies and Commitments – Adaptation and Priority Areas to Strengthen Resilience

2. **Moldova continues to implement and advance policies related to climate change adaptation.** More than a year after the adoption of the National Adaptation Program[2] in August 2023, which aims to enhance climate resilience across six essential sectors—agriculture, health, transportation, energy, water, and forestry—an increasing number of cities and towns nationwide are implementing local climate change adaptation and mitigation plans. Many communities[3] have recently committed to mitigating the negative effects of global warming by approving local climate adaptation and mitigation plans.

3. **The Government has approved the Methodology[4] for identifying hydro-morphological changes, monitoring, and evaluating water bodies.** The regulation includes monitoring the evolution of rivers and lakes, assessing their ecological status, and preventing their degradation. This framework strengthens the management process of watersheds, enhance water resource monitoring, and provide opportunities for intervention to protect their natural and ecological condition. Additionally, human interventions that may alter water flow, availability, and quality, as well as ecosystem health will be monitored to prevent any negative impacts on local residents and their properties.

4. **Water resources will be more closely monitored to reduce the risks of flooding and water pollution.** The Government has approved the procedures for the development and revision of the River Basin Management Plan[5]. To prevent and minimize flood risks, there will be a mandatory technical assessment of hydraulic structures built before 1991. Additionally, dam operators must submit a quarterly water level observation log for reservoirs, ponds, and fishponds. The regulations will also outline the procedures for the use of water intake sites, pumping stations, and mobile pumping installations; require the registration of operational regulations and technical documentation with the water management authority; and ensure data is entered into the Automated Information System "State Water Cadastre."

C. Government Policies and Commitments – Mitigation and Priority Areas to Reduce Greenhouse Gas (GHG) Emissions

5. **Moldova has taken proactive steps by partially transposing the European Union (EU) Directive 2016/2284 to reduce national emissions of specific air pollutants.** This regulation establishes a strong legal framework to protect human health and the environment, marking a

[2] The National Adaptation Program and the associated Action Plan were adopted on August 30, 2023: https://unfccc.int/sites/default/files/resource/NAP_Moldova_2024.pdf

[3] Ocnița, Bălți, Călărași, and Anenii Noi are among the communities that have approved local climate adaptation plans.

[4] https://cancelaria.gov.md/sites/default/files/document/attachments/nu-581-mm-2024.pdf

[5] https://gov.md/sites/default/files/document/attachments/nu-565-mm-2024.pdf

significant step in Moldova's European integration as part of the National EU Accession Plan for 2024–2027. Key objectives include reducing emissions of sulfur dioxide, nitrogen oxides, non-methane volatile organic compounds, ammonia, and fine particulate matter by 2040. The implementation will focus on monitoring and reporting the five most harmful pollutants, with the aim of improving air quality and fulfilling international commitments.

D. Other Challenges and Opportunities

6. The challenges outlined in the original assessment letter from November 2023 and consequent first Update from May 2024 persist today, particularly the need to enhance institutional capacity for climate transition and disaster risk management amid ongoing structural constraints and socio-political and economic risks, exacerbated by recent external shocks. The European Commission's 2024 report on Moldova's alignment with EU standards evaluates the country as having a "moderate level" of readiness in energy but still being at an "early stage" regarding climate and environmental preparedness[6]. Although recent progress has been made, significant barriers remain, including limited administrative capacity, fragmented sectoral policies, a lack of comprehensive government oversight in implementing climate commitments, and inadequate monitoring of greenhouse gas emissions and data reliability. While the foundational structures for managing climate policies are in place, there is a pressing need for clearer division of responsibilities, enhanced capacity, and increased budgets to support effective implementation. Simultaneously, Moldova's EU integration offers opportunities to swiftly adopt necessary standards and mechanisms for decarbonization and climate resilience, acting as a catalyst for broader financing options for sustainable development. Achieving a climate-resilient green transition will require substantial investments. According to the National Energy and Climate Plan, achieving these goals will require a total investment of $31 billion over the next 30 years, calculated using a 6 percent discount rate to determine the net present value. This investment, representing 13.2 percent of the cumulative GDP (discounted over the same period), is crucial for realizing the long-term energy and environmental objectives outlined in the plan. Additionally, by joining the EU's Civil Protection Mechanism on January 1, 2024, Moldova is progressing in aligning its disaster risk management practices with EU standards.

E. World Bank Engagements in the Area of Climate Change

7. The World Bank engagements discussed in the November 2023 Assessment Letter and consequent first Update from May 2024 are still ongoing. The Country Climate and Development Report (CCDR), which assesses how Moldova can achieve its development goals amidst the challenges of climate change and the global energy transition, has been published[7].

[6] https://neighbourhood-enlargement.ec.europa.eu/document/download/858717b3-f8ef-4514-89fe-54a6aa15ef69_en?filename=Moldova%20Report%202024.pdf

[7] https://openknowledge.worldbank.org/entities/publication/b5886ecd-d46b-4d48-a747-19e9326e0e9d

The findings and priorities outlined in the report, combined with ongoing dialogue, are already driving efforts to accelerate climate action. Notably, as part of the preparation of planned new Development Policy Operation (DPO), there is continuous dialogue with authorities to ensure the inclusion of essential policy and regulatory reforms that will enhance Moldova's climate resilience and mitigation efforts, while also operationalizing the recommendations from the CCDR.

8. Other World Bank initiatives focus on enhancing energy efficiency and resilience in Moldova. The World Bank is actively supporting Moldova's energy transition through several initiatives, including the Second District Heating Efficiency Improvement Project (DHEIP-2), the Power System Development Project (PSDP), and the Sustainable Transition to Energy Efficiency in Moldova (STEEM) program. These efforts, in conjunction with DPO engagement, promote competitive electricity procurement, upgrades to the domestic power transmission grid, improvements in district energy efficiency, and the establishment of new electricity generation sources. Additionally, the Programmatic Advisory Services and Analytics (ASA) for the Moldova Energy Sector aims to enhance the resilience of the electricity sector. The recently approved Strengthening Moldova's Disaster Risk Management and Resilience Project (SMORE) will further bolster the government's capacity for disaster risk reduction and climate change adaptation, focusing on climate disaster response, improved management of weather and climate risks, and financing investments that reduce risks. Together, these initiatives aim to strengthen the resilience of Moldova's critical infrastructure against natural hazards. The World Bank is also providing additional support through the EU funded Technical Assistance Facility for Financing Disaster Prevention and Preparedness (TAFF) with a grant for Strengthening Moldova’s Preparedness to Natural Hazards, Climate-related Shocks, and Health Emergencies, which will support SMORE and broader EU accession objective

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

December 11, 2024

SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—SUPPLEMENTARY INFORMATION, AND SUPPLEMENTARY LETTER OF INTENT

Approved By:
Mark Horton (EUR) and Jarkko Turunen (SPR)

Prepared by the European Department (EUR) in consultation with the Finance (FIN), Legal (LEG), Monetary and Capital Markets (MCM), and Strategy, Policy and Review (SPR) Departments.

This supplement provides an update on recent developments and program performance since issuance of the staff report on December 2, 2024. The update does not alter the thrust of the staff appraisal.

1. **This supplement provides updates regarding the implementation of the prior action (PA) under the ECF/EFF arrangement, Reform Measure 2 (RM2) under the RSF arrangement, and other recent developments.** The PA pertains to the submission to Parliament of a package of legislative amendments to strengthen the NBM law in line with the recommendations of a March 2024 IMF mission, while RM2 pertains to the Government's approval of a disaster risk management (DRM) program. Since the submission of the staff report to the Board, new information became available on prices in the energy sector and monetary policy measures.

2. **The PA on amendments to the NBM law was met.** The PA required the submission to Parliament of a package of legislative amendments to strengthen the NBM law in line with IMF recommendations on the NBM's legal, governance, and operational frameworks. The package included provisions strengthening appointment and dismissal procedures, the latter by introducing a double veto and explicit procedural (including due process) requirements, and reforming NBM governance and decision-making structures, especially qualifications, membership, and tenure of the executive and supervisory board members. The amendments were submitted to Parliament on December 4, 2024, and staff have assessed the PA as met (Updated Table 12).

3. RM2 on the DRM program was met. RM2 required the approval by the Government of a DRM program that covers the full spectrum of the Sendai framework and includes clear assignment of coordination and other DRM roles. The Government approved the DRM program on December 4, 2024, and staff have assessed RM2 as met (Updated Table 13). The disbursement of RM2 is planned for early-January 2025, in line with the authorities' request in the updated Letter of Intent (LOI) and the macroframework tables in the staff report.

4. The National Energy Regulatory Agency approved a 28-percent increase in the natural gas tariff effective December 1, 2024. This came after Moldovagaz requested a tariff adjustment, citing rising market prices and volatility. The announcement was unexpected, as prior discussions had primarily focused on the anticipated increase in electricity tariffs due to the termination of the Ukraine-Gazprom gas transit agreement. The gas tariff hike and second-round effects could bring CPI inflation close to the upper limit of the inner consultation band of 6.5 percent in 2025, at least temporarily. Separately, uncertainty surrounding electricity supply and prices arising from the possible termination of the Ukraine-Gazprom agreement and gas supplies to the MGRES power station in Transnistria remains, with no new agreements on gas-supply sources after December 31, 2024. The scenarios outlined in Box 1 of the staff report therefore remain applicable. The authorities are also planning to allocate an additional MDL 111 million (0.03 percent of 2025 GDP) to compensate for the gas tariff increase. The 2024 supplementary budget that was adopted by Parliament on December 5 and the draft 2025 budget that was adopted in the first reading by Parliament on December 4 were in line with the MEFP and previous discussions with staff.[1]

5. NBM continued to intervene in the FX market and has advanced a decision on lowering bank reserve requirements. From November 1 to December 5, amid the appreciation of the US dollar after the US elections and ongoing regional uncertainties, the NBM continued to intervene in the FX market, selling a total of $173 million, with interventions tapering in the first week of December. Moreover, the NBM advanced its last executive board meeting in 2024 from December 19 to December 5, and adopted a lowering of reserve requirements by 2 and 3 percentage points over the next two maintenance periods, respectively, for both FX and local currency liabilities.[2] The move appears to have been aimed in part at freeing up liquidity ahead of government auctions, to facilitate the rollover of maturing T-bills and create space for more issuance, and in part to reduce lending costs and facilitate lending to the private sector. Staff remains of the view that reserve requirements are too high and need to be progressively lowered but cautioned against lowering them too fast at the current juncture. In staff's view, there are no substantial changes to the macroeconomic outlook that would warrant a looser monetary policy stance; liquidity in banks remains abundant, and risks might emerge in the real estate sector. Moreover, there is a risk that banks may use some of the released leu liquidity to purchase FX assets, which might increase pressures on the leu. Staff also voiced concerns against changing the calendar

[1] The 2025 draft budget is scheduled for the second reading in Parliament on December 19.

[2] The reserve requirements for funds in MDL are set to decrease from 27 percent currently to 22 percent in the second maintenance period, while the reserve requirements for funds in FX will decrease from 36 percent currently to 31 percent.

of monetary policy meetings. Staff assesses that the authorities should be able to comfortably meet the December 2024 quantitative performance criterion on net international reserves.

6. Staff supports the completion of the Sixth Reviews under the ECF/EFF arrangement with the implementation of the PA, and the authorities' request for disbursements associated with RM2 and RM5 under the RSF arrangement. Staff assesses the implementation of the PA and RM2 as consistent with recommendations and understandings and supports the authorities' request for the disbursements associated with the completion of the Sixth Reviews under the ECF/EFF and with RM2 and RM5, as also specified in the attached updated LOI, supplementing the original LOI dated December 2, 2024.

Table 12. Moldova: Prior Actions and Structural Benchmarks Under the ECF/EFF

	Measure	Rationale	Timeframe	Status
Prior Actions				
1	Submit to Parliament a package of legislative amendments to strengthen the NBM laws in consultation with IMF staff and in line with the March IMF mission recommendations on (i) strengthening procedures related to changes in the members of decision-making bodies of NBM, including procedural safeguards, and introducing checks and balances; (ii) fine-tuning governance and decision-making structures of the NBM, especially the qualifications, membership, tenure, staggering and mandate of the executive and supervisory board members, and (iii) clarifying legal provisions on NBM's accountability to Parliament, and strengthening public communications.	Strengthen the institutional autonomy and governance of the NBM		**Met**
Structural Benchmarks				
Anti-Corruption and Rule of Law				
1	Adoption of the law on establishment of anti-corruption adjudication infrastructure, including a credible selection process of anti-corruption judges , which will promote appointment of persons with impeccable reputation and high professional and moral qualities.	Strengthen anti-corruption institutions	end-September 2024	**Not met, reset to end-December 2024**
2	Adopt legal amendments to grant APO autonomy in hiring of staff		end-November 2024	**Not met, replaced by proposed new SB**
3	Ensure APO is operationally independent and with staffing autonomy by (i) amending the Superior Council of Prosecutors regulations to require APO's written opinion on shortlisted prosecutors prior to transfer or promotion to APO; (ii) ensure that APO will be sufficiently staffed with at least 70 percent of prosecutor positions and 70 percent investigator (including case officers) positions filled.		end-March 2025	**Proposed new SB**
Fiscal Governance				
4	Prepare a proposal identifying tax expenditures to be phased out based on cost-benefit analysis.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end- December 2024	
5	Presenting fiscal accounts in GFSM2014 format	Strengthen accuracy of general government data	end-April 2025	
6	With IMF TA, prepare a report summarizing the findings of a review of the legislative framework and practices of tax audit	Strengthen tax administration reforms and revenue mobilization	end-January 2025	
7	Develop a plan for modernization of tax audit in line with the findings of the report		end-April 2025	
8	Submit for public consultation a new Chapter III of the Moldova Tax Code, setting out a VAT framework that is simple, broad-based, and compliant with the EU VAT acquis.	Reduce distortions and raise revenue	end-September 2025	**Proposed new SB**
9	By end-September 2025, Cabinet will approve draft legislation to eliminate tax expenditures starting in January 2026, including by extending the tax base or revising preferential tax regimes, with the goal of raising at least MDL 900 million in additional annual revenue compared to current policy.		end-September 2025	**Proposed new SB**
10	MoF to approve a Roadmap for a comprehensive medium-term salary structure reform, to realign functions with positions, reduce the number of reference values, and evaluate the fiscal implications of such reform	Improve simplicity and fairness of salary structure	end-June 2025	**Proposed new SB**
Financial Sector Oversight				
11	The NBM will prepare and adopt the remaining necessary secondary legislation for Pillar II and III of Solvency II.	Facilitate implementation of the Solvency II insurance framework	end-September 2024	**Met**
12	Develop an inter-agency committee with a mandate to develop, implement, and monitor National Financial Inclusion Strategy (NFIS).	Improve financial inclusion	end-June 2024	**Met**
13	Submit to Parliament a package of legislative amendments to strengthen the NBM laws in consultation with IMF staff and in line with the March IMF mission recommendations on (i) strengthening procedures related to changes in the members of decision-making bodies of NBM, including procedural safeguards, and introducing checks and balances; (ii) fine-tuning governance and decision-making structures of the NBM, especially the qualifications, membership, tenure, staggering and mandate of the executive and supervisory board members, and (iii) clarifying legal provisions on NBM's accountability to Parliament, and strengthening public communications.	Strengthen the institutional autonomy and governance of the NBM	end-November 2024	**Not met, reset as prior action for the sixth review**
SOE and Regulatory Framework Reforms				
14	Develop a strategy for the all the SOEs at the central government level that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks, and (ii) a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss making.	Improve SOE governance and reduce fiscal risks	end-September 2024	**Not met, implemented with delay in November 2024**
15	With the help of Fund TA, enhance the SOE fiscal risk mitigation framework through (i) establishing regular conduct of SOE stress testing and if applicable use of other financial performance assessment tools, and (ii) defining enhanced processes to inform decision making.	Improve SOE governance and reduce fiscal risks	end-May 2025	**Proposed new SB**

Table 13. Moldova: RSF Reform Measures

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

Source: IMF Staff

Appendix I. Supplementary Letter of Intent

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

Chişinău, Moldova
December 11, 2024

Dear Madam Managing Director:

This letter updates the Letter of Intent (LOI) dated December 2, 2024. We have submitted to Parliament a package of legislative amendments to strengthen the National Bank of Moldova (NBM) law in line with the March IMF mission recommendations on NBM's legal, governance, and operational frameworks to complete the prior action for the Sixth Reviews of the ECF/EFF arrangement. In addition to Reform Measure 5 (RM5), we have also completed Reform Measure 2 (RM2) scheduled for the Second Review under the Resilience and Sustainability Facility (RSF) arrangement by approving a disaster relief management (DRM) program that covers the full spectrum of the Sendai framework and includes clear assignment of coordination and other DRM roles.

Associated with completion of RM2, we request an accompanying disbursement worth SDR 10.78125 million (approximately US$14.4 million), to be disbursed in early-January 2025, which would bring the total disbursement for the Second Review under the RSF arrangement to SDR 21.5625 million (approximately US$28.7 million).

We also reaffirm the other requests and commitments we made in the earlier LOIs and remain confident that the policies that underpin our program will help preserve macroeconomic stability and ensure the achievement of our program objectives. We consent to the IMF's publication of this updated letter and the accompanying Executive Board supplement.

Sincerely yours,

/s/

Dorin Recean
Prime Minister

/s/

Victoria Belous
Minister of Finance

/s/

Anca Dragu
Governor National Bank of Moldova

Attachments (2): Updated Table 2 and Updated Table 3, updating Tables 2 and 3, respectively, of the Memorandum of Economic and Financial Policies attached to the original LOI, dated December 2, 2024.

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

	Measure	Rationale	Timeframe	Status
Prior Actions				
1	Submit to Parliament a package of legislative amendments to strengthen the NBM laws in consultation with IMF staff and in line with the March IMF mission recommendations on (i) strengthening procedures related to changes in the members of decision-making bodies of NBM, including procedural safeguards, and introducing checks and balances; (ii) fine-tuning governance and decision-making structures of the NBM, especially the qualifications, membership, tenure, staggering and mandate of the executive and supervisory board members, and (iii) clarifying legal provisions on NBM's accountability to Parliament, and strengthening public communications.	Strengthen the institutional autonomy and governance of the NBM		**Met**
Structural Benchmarks				
Anti-Corruption and Rule of Law				
1	Adoption of the law on establishment of anti-corruption adjudication infrastructure, including a credible selection process of anti-corruption judges , which will promote appointment of persons with impeccable reputation and high professional and moral qualities.	Strengthen anti-corruption institutions	end-September 2024	**Not met, reset to end-December 2024**
2	Adopt legal amendments to grant APO autonomy in hiring of staff		end-November 2024	**Not met, replaced by proposed new SB**
3	Ensure APO is operationally independent and with staffing autonomy by (i) amending the Superior Council of Prosecutors regulations to require APO's written opinion on shortlisted prosecutors prior to transfer or promotion to APO; (ii) ensure that APO will be sufficiently staffed with at least 70 percent of prosecutor positions and 70 percent investigator (including case officers) positions filled.		end-March 2025	**Proposed new SB**
Fiscal Governance				
4	Prepare a proposal identifying tax expenditures to be phased out based on cost-benefit analysis.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end- December 2024	
5	Presenting fiscal accounts in GFSM2014 format	Strengthen accuracy of general government data	end-April 2025	
6	With IMF TA, prepare a report summarizing the findings of a review of the legislative framework and practices of tax audit	Strengthen tax administration reforms and revenue mobilization	end-January 2025	
7	Develop a plan for modernization of tax audit in line with the findings of the report		end-April 2025	
8	Submit for public consultation a new Chapter III of the Moldova Tax Code, setting out a VAT framework that is simple, broad-based, and compliant with the EU VAT acquis.	Reduce distortions and raise revenue	end-September 2025	**Proposed new SB**
9	By end-September 2025, Cabinet will approve draft legislation to eliminate tax expenditures starting in January 2026, including by extending the tax base or revising preferential tax regimes, with the goal of raising at least MDL 900 million in additional annual revenue compared to current policy.		end-September 2025	**Proposed new SB**
10	MoF to approve a Roadmap for a comprehensive medium-term salary structure reform, to realign functions with positions, reduce the number of reference values, and evaluate the fiscal implications of such reform	Improve simplicity and fairness of salary structure	end-June 2025	**Proposed new SB**
Financial Sector Oversight				
11	The NBM will prepare and adopt the remaining necessary secondary legislation for Pillar II and III of Solvency II.	Facilitate implementation of the Solvency II insurance framework	end-September 2024	**Met**
12	Develop an inter-agency committee with a mandate to develop, implement, and monitor National Financial Inclusion Strategy (NFIS).	Improve financial inclusion	end-June 2024	**Met**
13	Submit to Parliament a package of legislative amendments to strengthen the NBM laws in consultation with IMF staff and in line with the March IMF mission recommendations on (i) strengthening procedures related to changes in the members of decision-making bodies of NBM, including procedural safeguards, and introducing checks and balances; (ii) fine-tuning governance and decision-making structures of the NBM, especially the qualifications, membership, tenure, staggering and mandate of the executive and supervisory board members, and (iii) clarifying legal provisions on NBM's accountability to Parliament, and strengthening public communications.	Strengthen the institutional autonomy and governance of the NBM	end-November 2024	**Not met, reset as prior action for the sixth review**
SOE and Regulatory Framework Reforms				
14	Develop a strategy for the all the SOEs at the central government level that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks, and (ii) a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss making.	Improve SOE governance and reduce fiscal risks	end-September 2024	**Not met, implemented with delay in November 2024**
15	With the help of Fund TA, enhance the SOE fiscal risk mitigation framework through (i) establishing regular conduct of SOE stress testing and if applicable use of other financial performance assessment tools, and (ii) defining enhanced processes to inform decision making.	Improve SOE governance and reduce fiscal risks	end-May 2025	**Proposed new SB**

Updated Table 3. Moldova: RSF Reform Measures

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

Source: IMF Staff

Statement by Mr. Marnix van Rij and Ms. Veronica Volociuc on Republic of Moldova
December 17, 2024

On behalf of the Moldovan authorities, we thank the IMF team for the constructive discussions on the sixth reviews under the ECF/EFF and the second review under the RSF arrangements. Despite the complicated regional context, caused by Russia's invasion of neighboring Ukraine, reforms are delivering on their objectives reflected in a continued economic recovery, buoyed by a robust implementation of the Fund-supported programs. The recently-announced €1.8 billion EU Growth Plan for Moldova (2025–27) will support the authorities' reforms in the EU accession process.

Moldova's EU membership remains the authorities' first priority, reconfirmed by the results of the recent referendum and presidential elections. Despite the extensive interference campaign to compromise the referendum and influence the presidential elections, both plebiscites reconfirmed the Moldovan population's choice for the EU. Following the outcome of the referendum, Moldova's priority to join the European Union has been enshrined in the Constitution, and the re-election of the incumbent pro-EU President reconfirmed the country's EU aspirations.

Amidst a complicated geopolitical context and widespread destabilization attempts, the implementation of the Fund-supported arrangements remains on track, notwithstanding some delays on structural reforms. The authorities agree with the thrust of the staff assessment and remain committed to achieving program objectives despite challenges stemming from the complicated regional geopolitical environment and external striving to sow political instability and division in the country. Given the successful implementation of programs so far and the robust set of reforms embedded in them, **the authorities request the completion of the sixth reviews under the ECF/EFF and second review under the RSF arrangements.** The authorities' policies and reforms will stay centered on fostering higher growth and creating a more competitive and resilient economy, bolstered by the EU accession pathway. Additionally, they will enhance contingency planning to address ongoing war-related challenges and risks from external energy shocks.

Recent Economic Developments, Outlook, and Risks

The economy is on a recovery pace and expected to expand by 2.6 percent in 2024 and 3 percent in 2025. This rebound will be sustained by a recovery in investment, stable inflation (maintained within the central bank's target 5+/-1.5 percent target band since October 2023), and robust private consumption, supported by solid credit growth and rising real wages. Strong credit growth has been driven by maintaining a policy rate of 3.6 percent since May 2024, along with gradually tapering reserve requirements and a well-capitalized, liquid, and profitable banking sector. The recently approved 2024 supplementary budget indicates that the fiscal deficit will decline to 4.4 percent of GDP in 2024, down from 5 percent in the last review, stemming from stronger revenue collections and lower-than-expected capital spending. At 38.2 percent of GDP, public debt remains sustainable. The current account deficit is expected to widen to 14.9 percent of GDP in 2024, due to weaker exports, dropping to 12.9 percent for 2025 due to stronger services and income balance projections. Despite the recent FX market interventions, reserves remain strong ($5.3 billion at end-November 2024), providing over six months of import coverage.

While the authorities continue to adjust to energy market volatility, energy risks could intensify due to Russia's aggression on Ukraine and weigh heavily on Moldova's economic outlook. The Energy Regulator (ANRE) recently increased the gas tariffs by 28 percent to reflect purchase costs and ensure the public service provider's financial viability. A potential cessation of Russian gas supply to Transnistria from early 2025 would exacerbate the economic and social challenges in the region, affect the MGRES power plant's electricity production, and create price uncertainties. To mitigate the adverse impact, the authorities have developed a contingency plan to address the expected higher electricity cost and safeguard energy buffers through alternative delivery sources. To protect the most vulnerable, targeted support will continue to be deployed via the Energy Vulnerability Relief Fund (EVRF). An electricity shock contingency buffer is included in the 2025 budget to address a potential increase in electricity prices of up to 50 percent for end consumers. Should prices increase beyond this level, the authorities will seek additional support from external partners.

Performance Under the ECF/EFF and RSF arrangements

Notwithstanding some delays in structural reforms, the ECF/EFF program implementation remains on track. The authorities forged ahead with reforms aimed at enhancing the financial sector and adopted the remaining necessary legislation for Pillar II and III of Solvency II. Amendments to the Law on the National Bank of Moldova (NBM) were submitted to the Parliament to further strengthen the NBM's institutional autonomy and governance (prior action). To enhance financial inclusion, an inter-agency committee was set up to develop and implement the National Financial Inclusion Strategy (NFIS). The SOE reforms were complemented with a framework for monitoring SOE's financial performance and mitigating related fiscal risks, together with a plan to rationalize non-strategic or loss-making SOEs. Due to the complexity of the law on establishing anti-corruption adjudication infrastructure and the need for additional discussions with all stakeholders, the authorities requested an extension of its approval. To avoid inconsistency with the legislation, the authorities also requested the reformulation of the structural benchmark (SB) on enhancing the autonomy of the Anti-Corruption Prosecutor's Office (APO).

The reforms under the RSF arrangement are progressing. For the upcoming heating season, the authorities made the EVRF better-targeted by transitioning from in-bill to cash transfers delinked from current energy consumption. They also approved the Disaster Risk Management (DRM) strategy in line with the Sendai framework. Finalizing the remaining two reform measures for the second RSF review will be completed for the next review as it requires additional work and coordination among stakeholders.

Economic Policies and Reforms

The 2025 budget is consistent with the Medium-Term Budgetary Framework (MTBF) objectives for 2025-27, aiming for a gradual fiscal consolidation by 2027 to help rebuild buffers, and

unlock growth potential. The overall deficit for 2025 will shrink slightly to 4 percent of GDP in 2025 (from 4.4 percent of GDP in 2024 and 5.2 percent in 2023) in line with the planned consolidation path. This reduction entails a moderate decrease in total spending and a rebalancing toward growth-enhancing investments. The 2025 budget will further support investments in infrastructure, education, and health. It will also align with the government's priorities to ensure energy security and address potential energy shocks, while protecting the most vulnerable. The allocated electricity shock contingency buffer (0.17 percent of GDP) is earmarked for additional support to households and to cover higher electricity costs in government buildings.

To expand fiscal space, the authorities will step up efforts to enhance domestic revenue, while improving spending efficiency and containing fiscal risks. The authorities will continue the work to reform the existing tax expenditures to improve efficiency and fairness. By the end of the year, they will identify the least efficient and effective tax expenditure, based on a cost-benefit analysis, to abolish them starting January 2026. They will also develop a new VAT framework in line with the EU VAT *acquis*. These efforts, on top of the planned measures to boost tax collection, will create space to support development needs and investments, including through additional capital spending to be financed under the EU Growth Plan. Further strengthening SOE fiscal risk mitigation and governance will be achieved through intensifying SOE stress testing and enhancing decision-making processes.

Monetary policy will remain geared towards maintaining inflation within the target band. The authorities regard the current accommodative monetary policy stance appropriate to support growth. The recent decision to reduce the mandatory reserve requirements for two consecutive application periods aims to increase the predictability of the monetary policy and adjust the behavior of money market participants to keep inflation within the target corridor. The authorities remain vigilant given potential risks to inflation including from energy shocks, while the policy rate decisions will continue to be data-driven, guided by inflation forecasts and risk-balancing. The FX market interventions that started at the end of October were intended to smooth the high volatility in the market caused by EUR/USD depreciation, combined with increased demand for foreign exchange. Their purpose was not to revert the depreciation trend; the Moldovan leu has depreciated against the US dollar by more than 2.1 percent since the interventions resumed. The authorities will continue to maintain exchange rate flexibility and limit FX interventions to avoid excess volatility. Starting in 2025, the NBM will use the euro as the reference currency for setting the official exchange rate of the Moldovan leu, replacing the US dollar, to reflect the country's economic shift towards the EU market. The policy effectiveness will be reinforced by the continued strengthening of the NBM's governance, which will be propped up by the conducted Central Bank Transparency Review.

Financial sector reforms will aim at bolstering the resilience of the system and supporting the economy. The authorities will continue to strengthen the financial supervision and macroprudential and crisis management frameworks, in line with EU legislation and best practices. To boost financial safety nets, stress-testing will be further enhanced, by expanding coverage to Non-Bank Credit Organizations (NBCOs) and the Deposit Guarantee Fund (DGF). Work is also in progress to operationalize the implementation of the Bridge Bank and Bail-in tools and strengthen the Emergency Liquidity Assistance regulation. In the insurance sector, following the recent introduction of Pillar II and III of Solvency II, the preparations to transpose Pillar I of Solvency II are advancing. Its enacting, however, will depend on the readiness of insurers to advance to the next phase, to be revealed following the ongoing Balance Sheet Review. To protect the financial sector from illicit financial flows, the authorities will strengthen the AML/CFT effectiveness by enhancing the risk-based AML/CFT supervision and addressing cross-border risks.

The authorities view capital market development as a key tool in promoting economic growth, enhancing investor confidence, and access to finance. With the support of USAID, the authorities are drafting the national strategy for capital market development, which is expected to be finalized by the end of the year. The analysis of further capital market development within a holistic setting will continue, focusing on upgrading regulatory, institutional, and financial infrastructure frameworks, while ensuring that the risks to financial stability remain contained. The planned FSAP to be conducted in 2025 will represent a proper avenue to discuss such opportunities.

The work on the financial inclusion agenda is progressing. Following the successful launch of the instant payment scheme, the NBM expanded the coverage to transfers for business (QR code-based payments to merchants) and Me2Me transfers to individuals. The next step of the extension will include business-to-person and person-to-government transactions. Furthermore, the PSD2-based open banking system is expected to be launched in February. The diagnostic phase to underpin the NFIS is ongoing, while the action plan to clarify the steps of NFIS's development is to be completed soon.

Further promoting the anti-corruption agenda remains a priority. The authorities continue their work to upgrade the effectiveness and independence of key anti-corruption institutions. The reforms under the program will focus on enhancing APO's staffing autonomy by March 2025 via (i) accepting the APO head's opinion in the hiring process of prosecutors and (ii) bringing up prosecutor and investigator staffing to at least 70 percent each. The law on the establishment of the anticorruption adjudication infrastructure is expected to be adopted by Parliament by the end of the year. It will be informed by the Venice Commission's opinion and the objective of setting a credible framework for the selection of anticorruption judges, alongside the scope to address high-profile corruption cases.

The authorities will continue to strengthen Moldova's resilience to climate shocks, underpinned by the reforms under the RSF arrangement. To support future investments and reforms in line with the Energy Strategy and attract infrastructure investments, the authorities will continue to work on the determination of the cost-recovery rate for the provision of electricity and gas. This will be complemented by a review of tariff differentiation options, based on the results of the ongoing smart meter information collection pilot project. To promote climate-smart infrastructure and enhance fiscal management, the authorities will incorporate climate change impact and the vulnerability assessment in the project appraisal methodologies and will take the necessary steps to ensure that climate implications are included in the projects for which budget is received. Additionally, the authorities will ensure reporting on climate spending allocation and execution and climate risks assessment in the Fiscal Risks Statement. These reform measures are expected to be completed for the next RSF review.