

Appendix I. Letter of Intent

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

Chişinău, April 10, 2020

Dear Ms. Georgieva:

1. The coronavirus pandemic has inflicted enormous economic and social costs on our economy and people. Our healthcare system is under severe pressure, with an urgent need for essential medical gear, equipment, and testing supplies. We are fighting the virus on multiple fronts, with many sectors having to stand still to choke its spread. While uncertainty remains high, we anticipate a deep recession. Public finances have come under significant strains due to plummeting tax and customs revenues and surging crisis-related healthcare and social assistance outlays. Plumging remittances, exports, and capital inflows, only partly offset by import compression, have created sizable BOP financing needs.

2. Notwithstanding the negative and uncertain economic outlook, we are keenly aware of the need to preserve fiscal discipline, ensure debt sustainability, and maintain a transparent and sound policy setting. Our concerted efforts, with the financial and technical support of our international partners, will be critical to preserving confidence and financial stability, safeguarding employment, protecting the vulnerable and unemployed, and promoting a broad-based and inclusive recovery. The crisis has necessitated urgent and significant recalibration of our near-term fiscal plans. In mid-April and in consultation with the IMF staff, the government adopted the 2020 amended budget which we expect to be expeditiously approved by parliament. We stand ready to review our spending plans and adopt an additional supplementary budget in the autumn, particularly if the outlook deteriorates or external financing risks materialize. Our policy actions include:

- *Support to businesses*, especially for entities and entrepreneurs affected by state-imposed restrictions. These measures include temporary labor tax reimbursement subsidies and tax deferral, expedited input VAT refunds, self-employed patent fee and late payment penalty waivers, and SME on-lending programs via commercial banks. We have imposed a moratorium on all tax audits and other state controls for the period of the national state of emergency and introduced a deduction for donations to the state for combating COVID-19.
- *Social protection measures*, such as expanding the access of unemployment benefits, including to returning migrant workers and those without prior employment record, and strengthening existing targeted social assistance and employment programs, backed up by significant increase in state budget allocation.

- *Health sector and contingency measures*, pledging equal access and increased virus-related health spending, as well as allocating additional funds to prepare the health system for a potentially more severe outbreak in line with cost estimates provided by the World Health Organization.
- *Public financial management* measures include strong coordination with local governments, contingency planning and increased allocations to state intervention funds.

3. We are committed to implementing strong control, audit, reporting, and transparency requirements with regards to crisis-related government spending, including by publishing information on associated public procurement and beneficial owners of companies contracting with the government as well as continuing to enforce the AML framework and asset declaration regime. We will subject all crisis-mitigation spending to a dedicated audit by the Court of Accounts Chamber and commit to making the audit report public.

4. Our financial system entered this crisis on a strong footing. The final review of the recently completed IMF-supported program marked the finalization of comprehensive multi-year banking sector reforms. Our banking system's capital adequacy and liquidity indicators remain strong, thereby providing a comfortable cushion against severe loan losses and liquidity strains. The National Bank of Moldova (NBM) and the National Commission for Financial Markets (NCFM) took measures aimed at supporting the economy, easing liquidity conditions, and enhancing financial system resilience.

- Our immediate objective is to preserve financial sector stability by ensuring transparent asset quality recognition, prudent loan loss provisioning, and facilitating sound restructuring practices. To enhance monitoring of bank solvency and liquidity, the NBM will ensure rigorous monitoring of prudential compliance, related-party exposures, cross-border transactions, and ML/TF suspicious activities and transactions.
- The NBM will step up cooperation efforts, including across jurisdictions, to identify emerging problems early on and will take coordinated preventive action, if needed. It will also seek out bank parents' commitments against credit and capital retrenchment should domestic banks' stability or capital come under pressure. It will also exercise its supervisory powers towards capital preservation, including dividend payout and share buyback restrictions.
- To mitigate risks in the nonbank financial sector, given its sizable individual and SME credit market footprint, we are recommending voluntary reductions in interest rates and payment deferrals on loans through the end of June. The supervisor will strictly supervise all deferred exposures and ensure transparent asset quality recognition.

5. We are committed to safeguard the central bank's independence and allow exchange rate flexibility to help facilitate necessary macroeconomic adjustment to the shock, with the NBM using its foreign currency reserves judiciously to counter disorderly market pressures and excessive exchange rate volatility.

6. In line with IMF safeguards policy, we commit to undergo a safeguards assessment update prior to approval of any subsequent IMF arrangement, such as a follow-up ECF/EFF. The Ministry of Finance and the NBM will update the Memorandum of Understanding on their respective roles and responsibilities for servicing financial obligations to the IMF.
7. Moldova will comply with the provisions of the IMF's Articles of Agreement. We commit not to introduce or intensify exchange and trade restrictions and other measures or policies that would compound balance of payments difficulties.
8. Looking beyond this immediate crisis, we aim to continue our engagement with the IMF and plan to reach agreement on a new multi-year arrangement to address Moldova's structural challenges. Key priorities include to strengthen the rule of law and reform the judiciary and public sector enterprise sectors, including by increasing transparency, strengthening oversight and governance, and enhancing public sector institutional capacity. These reforms will help us achieve our poverty reduction and growth objectives.
9. We hereby request IMF assistance under the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) in the amount of SDR 172.5 million (100 percent of quota) to address Moldova's urgent balance-of-payment and fiscal needs in support of our emergency crisis response. We trust that the policies set out in this letter are satisfactory to achieve our objective of economic stabilization, but we stand ready to implement additional measures to preserve macroeconomic and social stability. We will consult with the Fund on any revisions to the policies outlined in this letter. We will provide information requested by the Fund to assess our policy implementation. Maintaining our commitment to the policy of transparency, we consent to the publication of this letter and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

_____/s/_____
Ion Chicu
 Prime Minister, Government
 of the Republic of Moldova

_____/s/_____
Serghei Răilean
 Minister of Economy and
 Infrastructure

_____/s/_____
Serghei Pușcuța
 Minister of Finance,
 Vice-Prime Minister

_____/s/_____
Octavian Armașu
 Governor
 National Bank of Moldova