INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/305

REPUBLIC OF MOLDOVA

September 2019

FOURTH AND FIFTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, COMPLETION OF THE INFLATION CONSULTATION, AND REQUEST FOR EXTENSION OF THE ARRANGEMENTS AND REPHASING OF ACCESS—PRESS RELEASE; STAFF REPORT; DEBT SUSTAINABILITY ANALYSIS, AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOLDOVA

In the context of the Fourth and Fifth Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements, Completion of the Inflation Consultation, and Request for Extension of the Arrangements and Rephasing of Access, 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 September 20, 2019, following discussions that ended on July 10, 2019, with the officials of the Republic of Moldova on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on September 6, 2019.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Republic of Moldova.

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

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

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

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 19/344
FOR IMMEDIATE RELEASE
September 20, 2019

International Monetary Fund
Washington, D.C. 20431 USA

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

On September 20, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fourth and fifth reviews under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) Arrangements. This makes available to Moldova the cumulative amount of SDR33.6 million (about US$46.1 million). The Board also approved Moldova's request for extension of the arrangements to March 20, 2020 and rephasing of access in order to allow for the successful completion of the program.

The ECF/EFF arrangements in a total amount of SDR 129.4 million (about US$178.7 million, or 75 percent of the Republic of Moldova's quota) were approved on November 7, 2016 (see Press Release No 16/491 for details). It aims to support the country's economic and financial reform program.

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

"The Moldovan authorities have taken decisive corrective measures to bring the Fund-supported program back on track and to achieve its objectives of ensuring macroeconomic stability and advancing reforms. Going forward, it is critical that the authorities continue to pursue prudent policies and structural reforms aimed at strengthening the financial sector, maintaining fiscal sustainability, and creating space for social and infrastructure spending.

"Significant progress has been achieved in the financial sector's reform agenda. Important measures to secure shareholder transparency and fitness and probity of the domestic banking system were completed. Progress has been achieved in improving supervision, regulatory frameworks, unwinding bank related-party exposures, and strengthening financial safety nets. Moving forward, exit of the second largest bank from temporary administration, addressing rising risks in the non-bank financial sector, and improving the AML/CFT framework will be critical, in addition to making decisive progress on asset recovery.

“The amended 2019 budget will help mitigate immediate fiscal pressures. Strong implementation of adopted measures will be key in ensuring fiscal sustainability, while securing the needed fiscal space for priority projects. New initiatives need to be carefully costed. Continued efforts are needed to strengthen tax administration and compliance, streamline tax expenditures, and reduce risks from SOEs and PPPs. Strengthening public investment management would help improve the efficiency of public investments and scale up public infrastructure.

“Monetary policy should continue to focus on maintaining price stability, in the context of a flexible exchange rate regime. The NBM should continue to improve its operational framework and capacity. Safeguarding the NBM’s independence is critical for its ability to fulfill its mandates of maintaining price and financial sector stability.

“Progress towards structural bottlenecks is needed to unlock Moldova’s economic potential. Improving governance and fighting corruption, strengthening bank intermediation, implementing transparent and predictable energy tariff policy, and promoting a business-friendly environment will boost growth potential and raise incomes.”

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

September 6, 2019

FOURTH AND FIFTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, COMPLETION OF THE INFLATION CONSULTATION, AND REQUEST FOR EXTENSION OF THE ARRANGEMENTS AND REPHASING OF ACCESS

KEY ISSUES

The economy continued to strengthen. Robust growth in 2018 was propelled by infrastructure and private investments, while private consumption continued to expand into 2019, supported by growing real incomes and bank lending recovery. Inflation slowed in 2018, but pressures are building up. The labor market improved significantly, with strengthening labor force participation, employment growth, and falling unemployment.

Policy setbacks emerged in the runup to the parliamentary elections, delaying program reviews. The 2018 capital and tax amnesty and other fiscal initiatives undermined key program objectives and raised governance concerns. Notwithstanding the delay, implementation of most program commitments has continued: quantitative conditionality was broadly observed and the structural agenda in the financial sector has substantially advanced.

The new government has demonstrated strong commitment to the program, correcting past policy reversals and advancing reforms. The authorities have implemented six prior actions, correcting fiscal slippages and advancing financial sector reforms, thereby affirming their commitment to program objectives.

Policies remain focused on cleansing the financial sector, ensuring growth-friendly fiscal policy, and enhancing transparency in the energy sector. The authorities are committed to completing the rehabilitation of the banking system, addressing vulnerabilities in the non-bank sector, promoting predictable energy tariff-setting, and maintaining fiscal sustainability to preserve space for social and infrastructure spending.

Staff supports the completion of the combined fourth and fifth reviews, the extension of the arrangements to March 20, 2020, and rephasing of access. Given the strong corrective actions undertaken and policy commitments going forward, staff supports completion of these reviews under the ECF/EFF arrangements, which would make available the equivalent of SDR 33.6 million to Moldova.

Approved By
Julie Kozack (EUR) and Mary Goodman (SPR)

Discussions were held in Chişinău during June 26–July 10, 2019. The mission met with President Dodon, Prime Minister Sandu, Minister of Economy and Infrastructure Brînzan, Minister of Finance Gavriliţa, Governor of the National Bank of Moldova Armaşu, Speaker of the Parliament Greceanîi, and other officials and representatives of financial institutions, the diplomatic community, and international organizations. The mission team comprised Ruben Atoyan (Head), Amgad Hegazy, Sílvia Domit, (all EUR), Volodymyr Tulin (Res. Rep.), Oleksandr Pysaruk (MCM), Emmanouil Kitsios (FAD), and Yevgeniya Korniyenko (SPR). Jesper Hanson (OED) participated in the discussions. Chasta Piatakovas, Samuel Romero Martinez (EUR) and staff from the local office in Chişinău assisted the mission.

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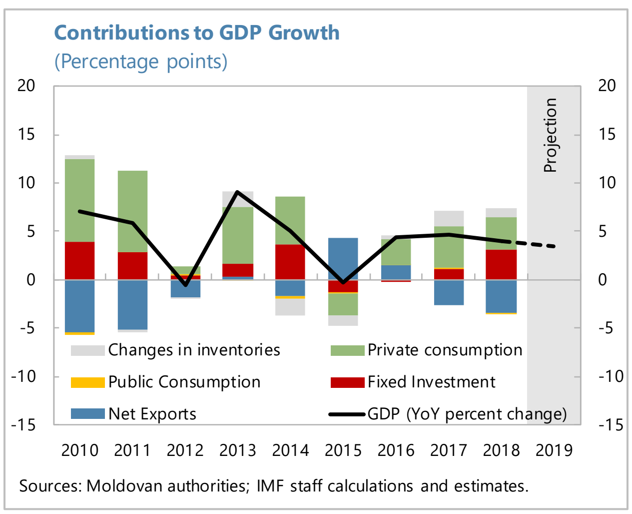
CONTEXT AND RECENT DEVELOPMENTS

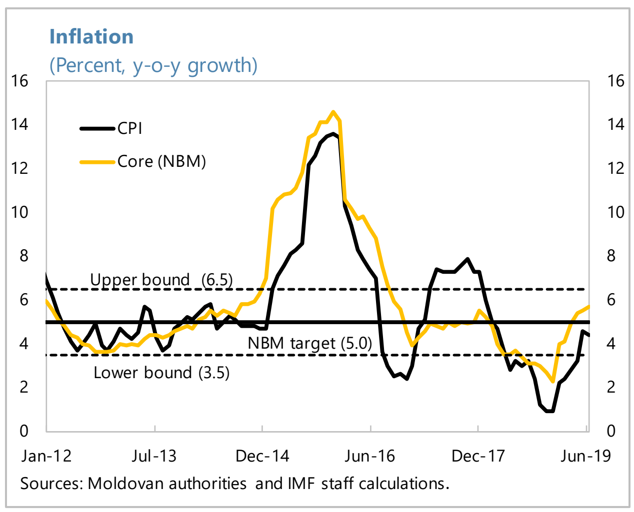
1. **In mid-2018, Moldova's ECF/EFF blended arrangement was broadly on track to achieve its key objectives.** Substantive progress had been made in addressing governance and stability issues in the banking sector, and fiscal policy was broadly balanced and aimed at tackling pressing social and infrastructure needs. Some advances had been made in improving the business climate and energy policy.

2. **Policy setbacks, however, emerged ahead of the February 2019 parliamentary elections.** The pre-election capital and tax amnesty and other fiscal initiatives undermined key program objectives and raised governance and tax administration concerns. While some corrective actions were implemented, no reviews were completed after June 2018 as efforts were insufficient to restore policy credibility. The EU paused its macro-financial assistance (MFA) to Moldova over concerns about deteriorating democratic standards and a poor anti-graft track record.

3. **The political instability that emerged in the aftermath of the parliamentary elections has subsided and the new government is committed to continue reforms.** Inconclusive parliamentary elections led to a three-month political stalemate which ended when two opposition parties—the pro-Russian Socialists and pro-EU ACUM—agreed to form a coalition. The new authorities requested a resumption of the Fund-supported program and agreed to implementing bold measures to reverse policy slippages by the previous government and complete financial sector reforms.

4. **Growth remains robust.** Real GDP grew 4 percent in 2018, driven by infrastructure and private investments, while rising real incomes and recovering bank lending supported consumption. Growth picked up to 4.4 percent in 2019Q1, driven by agricultural exports. The labor market improved significantly in 2018, with higher labor force participation, record employment growth in the formal sector, and a drop in the unemployment rate to 3 percent.



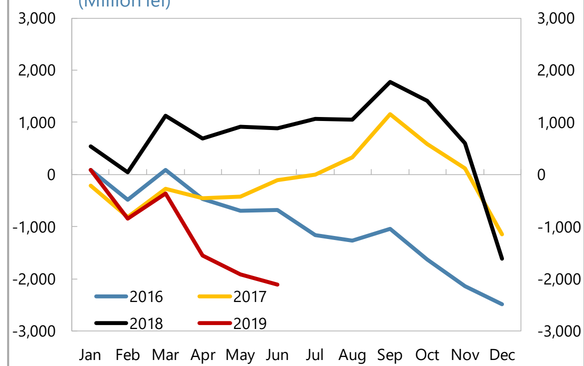


5. Inflation temporarily slipped below the NBM's band in 2018, but pressures are now building. Inflation slowed in 2018 due to downward adjustments to energy tariffs, lower food price inflation, and exchange rate appreciation (see MEFP ¶14). It has picked up sharply in 2019, as these effects dissipated, and pressures mounted from an expansionary fiscal stance and a bout of leu depreciation in response to the political uncertainty. The National Bank of Moldova (NBM) responded by raising the policy interest rate in June, for the first time since December 2017, and again in July.

6. Financial conditions are improving. Bank credit is expanding in real terms for the first time in 5 years, in tandem with growth in deposits. Banks are well capitalized and liquid, with adequate profitability ratios, while NPL ratios continue to fall.

7. Public finances overperformed strongly last year but deteriorated sharply in 2019. The augmented general government deficit was 1.1 percent of GDP in 2018, significantly lower than the 3.5 percent of GDP envisaged in the third review.[1] Public debt, at about 30 percent of GDP, also undershot program projections due to fiscal overperformance, non-disbursement of external loans, and favorable exchange rate valuation effects. During 2019H1, however, the augmented

Cumulative Overall Balance
(Million lei)



Sources: Moldovan authorities and IMF staff calculations.

Fiscal Performance Against Program and Budget

	Jan-Jun 2018			Jan-Dec 2018			Jan-Mar 2019				
	Third Review	Actual	Difference	Third Review	Actual	Difference	Third Review	Budget [1/]	Actual	Difference Actual/Third Review	Difference Actual/Budget
Revenues and grants	**26,721**	**27,777**	**1,056**	**57,963**	**57,996**	**33**	**12,882**	**14,336**	**14,128**	**1,247**	**(208)**
Revenues	26,561	27,651	1,091	56,037	57,609	1,571	12,683	14,119	14,049	1,366	(70)
Tax revenue, o/w	25,295	26,149	854	53,538	54,816	1,278	12,352	9,443	13,468	1,116	4,025
PIT	1,879	2,023	145	3,951	3,982	31	954	786	919	(34)	134
CIT	2,448	3,036	587	4,551	5,357	806	1,484	2,096	1,819	335	(277)
VAT	8,223	8,469	246	17,968	18,616	647	4,020	4,397	4,509	488	112
Excises	2,834	2,346	(488)	6,165	5,683	(482)	1,229	1,166	1,053	(175)	(112)
Social security contributions	7,891	8,268	377	16,830	17,156	326	3,943	3,901	4,276	332	375
Non-tax revenue	1,266	1,503	237	2,499	2,793	294	331	687	581	250	(105)
Grants	160	126	(35)	1,926	387	(1,539)	199	217	79	(120)	(138)
o/w Budget support	0	0	0	1,285	0	(1,285)	0	0	0	0	0
Expenditure	**31,011**	**26,988**	**(4,023)**	**63,644**	**60,005**	**(3,639)**	**14,867**	**14,486**	**14,485**	**(381)**	**(1)**
Current	27,394	25,462	(1,932)	55,558	53,597	(1,960)	13,312	13,853	13,696	385	(157)
Wages	7,616	7,005	(611)	14,030	13,733	(297)	3,968	3,497	4,034	66	537
Goods and Services	5,524	5,068	(456)	11,645	11,209	(436)	2,557	2,837	2,454	(103)	(382)
Interest payments	711	769	58	1,680	1,526	(154)	423	418	255	(168)	(163)
Transfers	11,693	11,173	(520)	22,091	23,411	1,321	5,108	6,281	5,879	770	(402)
Other	1,850	1,447	(403)	6,112	3,718	(2,393)	1,255	821	1,074	(181)	254
Capital	3,617	1,526	(2,091)	8,087	6,407	(1,679)	1,555	633	789	(766)	156
Augmented Overall Balance [2/]	**(4,290)**	**789**	**5,079**	**(5,681)**	**(2,009)**	**3,672**	**(1,985)**	**(150)**	**(357)**	**1,628**	**(207)**
Memorandum:											
PPG debt (percent of GDP) [3/]	…	…	…	32.0	30.6	-1.4	…	…	…	…	…

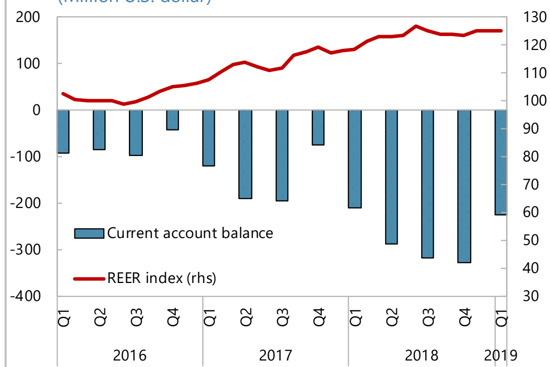
1/ Staff projection based on budget execution rates in 2017-18 applied to the amended 2019 budget.
2/ Includes externally financed net on-lending to SOEs.
3/ Jan-Dec 2018 debt ratio rebased using revised GDP level for comparison.

[1] Nominal GDP was revised upward (by about 17 percent, relative to the third review), which also affected the deficit ratio.

general government deficit widened sharply driven by shortfalls in EU grants, under-performance of CIT and excises, and wage bill overruns.

8. The external position has weakened. The current account deficit deteriorated to over 10 percent of GDP in 2018 on the back of strong domestic demand and real exchange rate appreciation. Robust private financial inflows, however, led to a moderate buildup of reserves that remain adequate at about 170 percent of the IMF composite reserve adequacy metric. The leu appreciated in nominal terms last year but lost some of its strength in 2019H1, in the run-up to the elections and the political uncertainty that followed.

Current Account and Real Effective Exchange Rate
(Million U.S. dollar)



Sources: IMF WEO and IMF staff calculations.

OUTLOOK AND RISKS

9. The economic outlook remains broadly positive, provided that the reform momentum is decisively sustained:

- **Growth** is projected to moderate to 3.5 percent in 2019, driven by lower than originally planned infrastructure spending and tighter monetary policy. Medium-term growth is projected at about 4 percent.

- **Inflation** is projected to peak at around 7.5 percent by end-2019 and stabilize close to the 5 percent target by mid-2020.

- **The current account deficit** is expected to moderate to 9.5 percent of GDP in 2019—while the resumption of donor financing will help maintain reserve adequacy—and adjust to below 7 percent of GDP over the medium term, supported by a tighter monetary and fiscal policy mix and financed by strong capital and investment flows as confidence improves.[2]

- **Public and external debt** to GDP ratios are estimated to preserve Moldova's low risk of debt distress (DSA supplement).

10. The outlook is vulnerable to significant downside risks. Domestically, a renewed escalation of political tensions, new policy slippages, and complacency or reform fatigue by the

[2] While still adequate, reserves are on a lower path in 2019 and over the medium term (compared with the third review) on account of the wider-than-envisaged current account deficit to start with in 2018, buoyed by stronger consumption and higher energy prices. High 2019 FDI inflows are on account of a large transaction of a single company.

temporary coalition government could hurt confidence and resurrect uncertainty about external official financing. Regional and global spillovers from geopolitical and trade tensions also cannot be ruled out. On the upside, resolute progress in tackling outstanding governance concerns would strengthen public trust in state institutions and popular support for the reform agenda.

PROGRAM PERFORMANCE

11. Program performance, despite outdated program targets, was broadly adequate based on end-June and end-December 2018 PCs, while all continuous PCs were observed (MEFP Table 1).

- **End-June and end-December 2018**: fiscal performance criteria on the ceiling on *the augmented general government deficit* were met by large margins (about 0.4 and 2 percent of GDP, respectively) on account of large revenue over performance (CIT, VAT, SSC, and non-tax revenue) and significant under-execution of current and capital spending. The indicative target on the ceiling on *the general government wage bill* was also met. However, the indicative ceiling on *the stock of accumulated domestic government arrears* and floor on *priority social spending* were marginally missed; while the indicative floor on *project spending funded from external sources* were missed by 0.2 and 1 percent of GDP, respectively. Performance criteria on the NIR floor were observed.

- **End-March 2019 indicative targets:** *the augmented general government deficit* target was met by a large margin (0.8 percent of GDP) as revenues exceeded program projections, despite overruns on *the general government wage bill* and underperformance of excises and CIT relative to the amended budget targets. While the floor on *priority social spending* was met, the ceiling on *the stock of accumulated domestic government arrears* and the floor on *project spending funded from external sources* were missed. The indicative NIR floor was missed (by about $158 million) due to FX sales to counter depreciation pressures ahead of the elections.

- **Inflation consultation band:** inflation dropped temporarily below the outer consultation band in December 2018, triggering an inflation consultation with the IMF Executive Board. Whereas the slowdown had been expected, its magnitude surprised on account of lower-than-expected international food prices, further exchange rate appreciation, and larger-than-expected cuts to energy tariffs. Inflation returned within the band the next month and has remained within it since then.

- **Structural conditionality:** Three of five SBs have been implemented, albeit one with a delay, and one remains outstanding. The authorities met end-June and end-July 2018 SBs on the new electricity tariffs and the action plans for unwinding related-party exposures. In January 2019, they finalized onsite inspections in banks that are part of foreign groups (end-May 2018 SB). Notwithstanding substantive progress, a systemic bank's exit from temporary administration remains delayed (end-October 2018 SB).

POLICY DISCUSSIONS

A. Fiscal Policy: Addressing Fiscal Pressures and Policy Reversals

Background

12. A package of pre-election fiscal initiatives and a capital and tax amnesty introduced in July 2018 undermined program objectives and raised fiscal risks.

- **A tax package narrowed the tax base, reduced tax efficiency, and reversed some hard-earned gains from the recent pension system reform**. These included: (i) an introduction of a flat-rate PIT system, undermining income tax progressivity (revenue loss of 0.5 percent of GDP); (ii) a cut in private employers' social security contribution rates (0.8 percent of GDP), widening the pension fund deficit; (iii) a reduction in the taxable share of capital gains; (iv) a reduced VAT rate applied to hotels and restaurants (HORECA, Box 1); and (v) an elimination of excises on petrol at border crossing points.

Moldova's Unified Salary System

	Employment Category	Reference Value (MDL)	Number of Employees
1	Personnel with public dignity in parliament	1,000	110
2	Cabinets of the Speaker, President, and PM	1,100	29
3	Other personnel with public dignity	1,300	68
4	Standard reference value	1,500	73,002
5	Teaching and admin staff in education	1,600	89,072
6	Ministry of Internal Affairs	1,700	4,299
7	Directors of education institutions	1,800	2,811
8	Security, Anti-Corruption, AML, Aviation	2,000	1,612
9	Judges, prosecutors, inspectors	2,500	1,102
10	Constitutional and Supreme Courts	2,600	55

Source: Moldovan authorities.

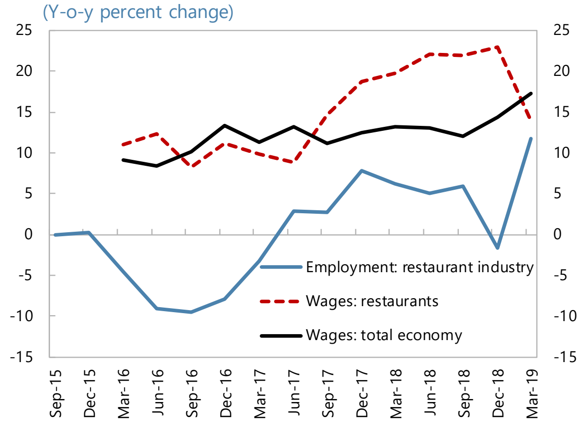
- **A reform of the unified public wage system added to fiscal pressures.** While the original draft law was supported by Fund staff, the enacted legislation (effective December 1, 2018) inflated the wage bill (by 0.6 percent of GDP) amid the lack of a proper staff register. Also, as a political compromise, the system introduced ten different reference values for calculating salaries, undermining the reform objective of simplifying a complex wage ladder and improving wage compression.

- **A new capital and tax amnesty—the third in a decade—weakened tax administration and undermined tax compliance.** The amnesty legalized undeclared wealth from tax evasion subject to a fee, allowed writing off accumulated interest and penalties for settling tax arrears, and banned tax audits prior to 2018. To address staff's concerns, the authorities amended the law to (i) narrow the list of individuals who can take advantage of the voluntary declaration by excluding public sector officials and related persons; (ii) increase the tax on cash disclosures from 3 to 6 percent, but short of the 12 percent recommended; (iii) withdraw all benefits in cases of incomplete declaration; and (iv) oblige taxpayers to provide evidence that expenses in excess of future reported income are financed out of voluntarily declared monetary assets. These amendments effectively neutralized the amnesty, as few declarations (and of insignificant amounts) were submitted. However, recurrent tax amnesties undermine compliance and encourage delinquency, particularly given that the restriction on tax audits impedes enforcement.

Box 1. Hotels, Restaurants, and Cafes (HORECA) – Trends and Policy Considerations

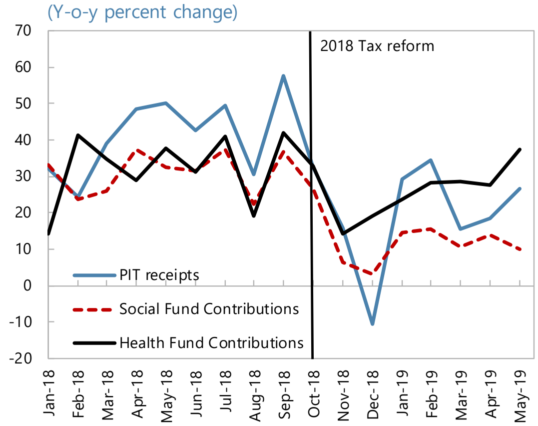
Moldova's HORECA industry is growing but remains relatively underdeveloped. It accounts for about 1 percent of formal employment (of which about 80 percent is in restaurants), much smaller than in Romania where it accounts for about 4 percent. Within the industry, the restaurant sector is experiencing an expansion, with annual employment growth averaging about 4.5 percent in 2017–19, underpinned by robust domestic demand. Moreover, average wage in the sector has grown by almost a half since 2016, outpacing economy-wide wage growth by 20 percentage points. The sector's average wage reached about 70 percent of the economy-wide level, compared to 60 percent ratio in Romania.

Moldova: Employment and Earnings in Restaurant Industry
(Y-o-y percent change)

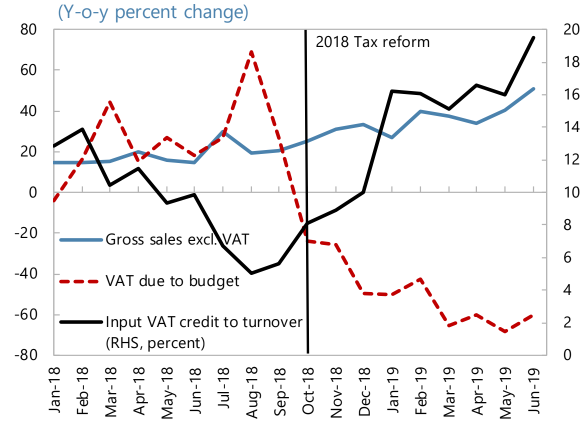


The October 2018 tax changes have not produced expected outcomes. Undertaken with a view to primarily de-shadow the economy, the VAT rate applicable to HORECA industries was halved to 10 percent from the standard rate. The industry also benefitted from the economy-wide PIT and SSC rates cuts. Nonetheless, the wage-related tax policy measures did not lead to a material de-shadowing of labor in the industry. Specifically, growth of the Health Fund contributions—unaffected by policy changes—indicates no level or trend shift in the tax base. Moreover, de-shadowing of sales has not paid off considering VAT revenue loss. Post-reform weighted average VAT rate on sales declined from about 19 to 13 percent, while average VAT rate on inputs remained at about 19 percent. Despite a strong growth of sales, VAT due to the budget has dropped by 60 percent, while the stock of VAT input tax credit has surged from the average of about 5 percent of turnover to almost 20 percent. For businesses that operate under relatively thin margins, carrying a large stock of tax credits is costly in terms of profitability and can also encourage the rise of informality.

Restaurant Industry: Labor-Related Taxes
(Y-o-y percent change)

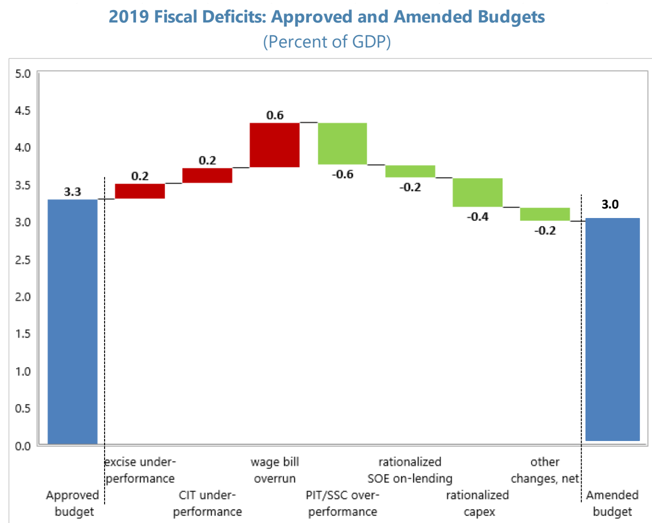


Restaurant Industry: Sales and VAT Collections
(Y-o-y percent change)



Policies

13. To contain fiscal risks, the authorities adopted in August amendments to the 2019 budget consistent with the augmented general government deficit of 3 percent of GDP *(prior action)*. This deficit target—tighter than 3.3 percent of GDP envisaged in the approved budget—is appropriate given financing constraints, while adequately protecting priority social spending. The amended budget updated for 2019H1 revenue trends and introduced new measures:



- **On the expenditure side** (0.6 percent of GDP): (i) redistributed gains from savings on employee vacancies in the budget sector to cover higher wage bill needs from local governments; (ii) reduced net on-lending to SOEs in line with expected project disbursements; and (iii) rationalized capital spending to reflect lower execution during 2019H1;

- **On the revenue side** (0.1 percent of GDP): (i) increased excises for heat-not-burn and fine-cut tobacco products; (ii) reduced exemptions on income from lotteries and sports betting; (iii) limited tax-free sales at duty-free shops to travelers leaving Moldova by sea or air; and (iv) removed tax exemptions on petroleum products sold in the customs control area.

14. The authorities also took steps to mobilize resources for development and social spending in 2020. Towards this objective, amendments to the Tax and Customs Codes were adopted in August **(*prior action*)** to raise revenue on CIT, PIT, VAT, excises, and property taxes and rationalize tax expenditures. Specifically, the amendments—effective January 1, 2020—have: (i) broadened the capital gains tax base; (ii) increased the VAT rate for HORECA; (iii) phased out the personal allowance for higher incomes; (iv) removed tax exemptions applied to meal vouchers provided by employers; (v) removed VAT exemptions on goods imported by PPPs; (vi) unified excise duty rates for cigarettes with and without filter; (vii) consolidated environmental taxes; (viii) increased PIT rates on tax withheld in advance; and (ix) reduced tax-free personal exemptions on merchandise shipped by mail. These measures are expected to yield about 0.3–0.6 percent of GDP in revenue, not presently included into staff's projections due to the costing ambiguity. An agreement on the 2020 budget, inclusive of these measures and consistent with program objectives, will be a key precondition for the final program review.

15. The authorities and staff agreed on robust measures to strengthen tax administration and improve tax compliance. First, the Tax Code was amended ***(prior action)*** to: (i) withdraw provisions that provided for the deduction of up to MDL 500,000 from the indirect method assessment of estimated taxable income; and (ii) sunset the carryover provision from the 2012 "capital liberalization scheme". Second, the capital and tax amnesty law was amended ***(prior action)*** to allow the State Tax Service (STS) to perform audits and exercise its investigative functions prior to January 1, 2018. Third, the authorities will formally propose a date for the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes ***(new end-December SB)***, with a view to start the automatic exchange of information with other countries by end-2022.

16. The authorities recognize the need to strengthen the unified wage system in the budgetary sector and improve control over the wage bill. In line with staff advice, they will (i) adopt a time-bound plan to phase out multiple reference values with a view to improve budgetary process and medium-term planning; and (ii) develop and operationalize a comprehensive IT-based staff registry.

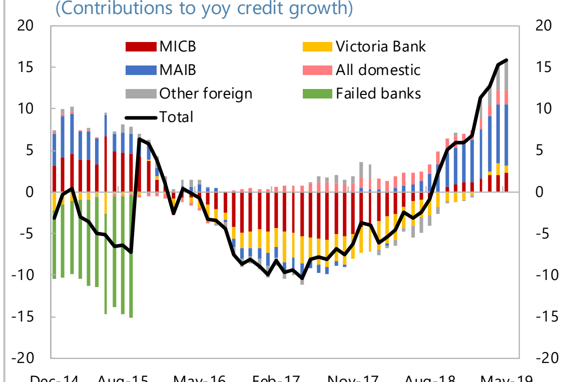
17. Staff recommended strengthening institutional fiscal frameworks to support medium-term policy and prioritize growth-enhancing spending. To this end, findings from spending reviews (education and agriculture sectors) need to be integrated into the medium-term budget framework and annual budget processes. The fiscal risk statement should be expanded to improve coverage, monitoring, and reporting of risks emanating from SOEs and PPPs. Finally, a comprehensive strategy to strengthen public investment management needs to be developed, supported by forthcoming IMF technical assistance, to improve the efficiency of public investment and scale up public infrastructure.

B. Financial Sector: Completing Banking Reforms and Mitigating Non-Bank Risks

Background

18. Efforts to ensure fitness and probity of banks' ultimate beneficiary owners are paying off, supporting credit recovery. The sale by a non-transparent shareholder of shares in VictoriaBank (third largest bank) to a Romanian banking group in January 2018 represented a reform milestone. In October 2018, a stake in MAIB (largest bank) was sold to an EBRD-led consortium. In March 2019, majority shares of MICB (second largest bank) were sold to a Bulgarian non-bank investor. In January 2019, the NBM also suspended the legal rights of shareholders acting in concert in two non-systemic banks and appointed a temporary administrator in one of the banks. These changes in the ownership structure contributed to the revival of credit, with total lending registering double-digit growth for the first time since 2016.

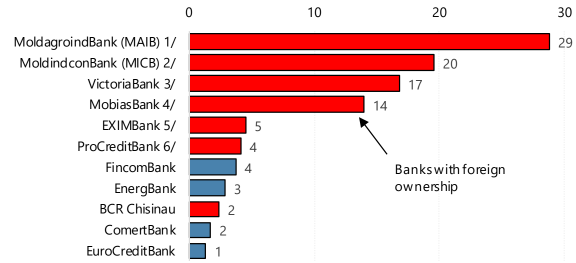
Total Lending Growth
(Contributions to yoy credit growth)



Sources: NBM and IMF staff calculations.

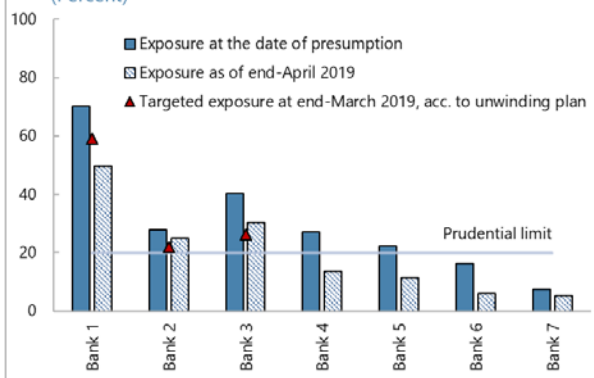
19. The implementation of unwinding of (previous) related-party exposures is proceeding as planned. Time-bound action plans for unwinding these exposures were approved ***(end-July 2018 SB)***. By end-April, four out of seven banks had aligned exposures with prudential limits, and remaining banks continue to reduce their gross exposures as planned. Regulations on banks' transactions with related parties have been updated to calculate such exposures net of loan-loss provisions.

Foreign Ownership of Banks
(Percent of banking sector assets)



Source: NBM and IMF staff calculations.
1/ 41 percent acquired by EBRD-led consortium (October 2018).
2/ 63.8 percent acquired by Bulgarian Doverie Fund (March 2019).
3/ Majority stake acquired by Banca Transylvania and EBRD (January 2018).
4/ In process of acquisition by OTP, from Societe Generale (February 2019).
5/ Acquired by Intesa Sanpaolo (June 2017).
6/ 100 percent foreign-owned (96 pct German; 3.8 pct Netherlands).

Unwinding of Banks' Related Party Exposures
(Percent)



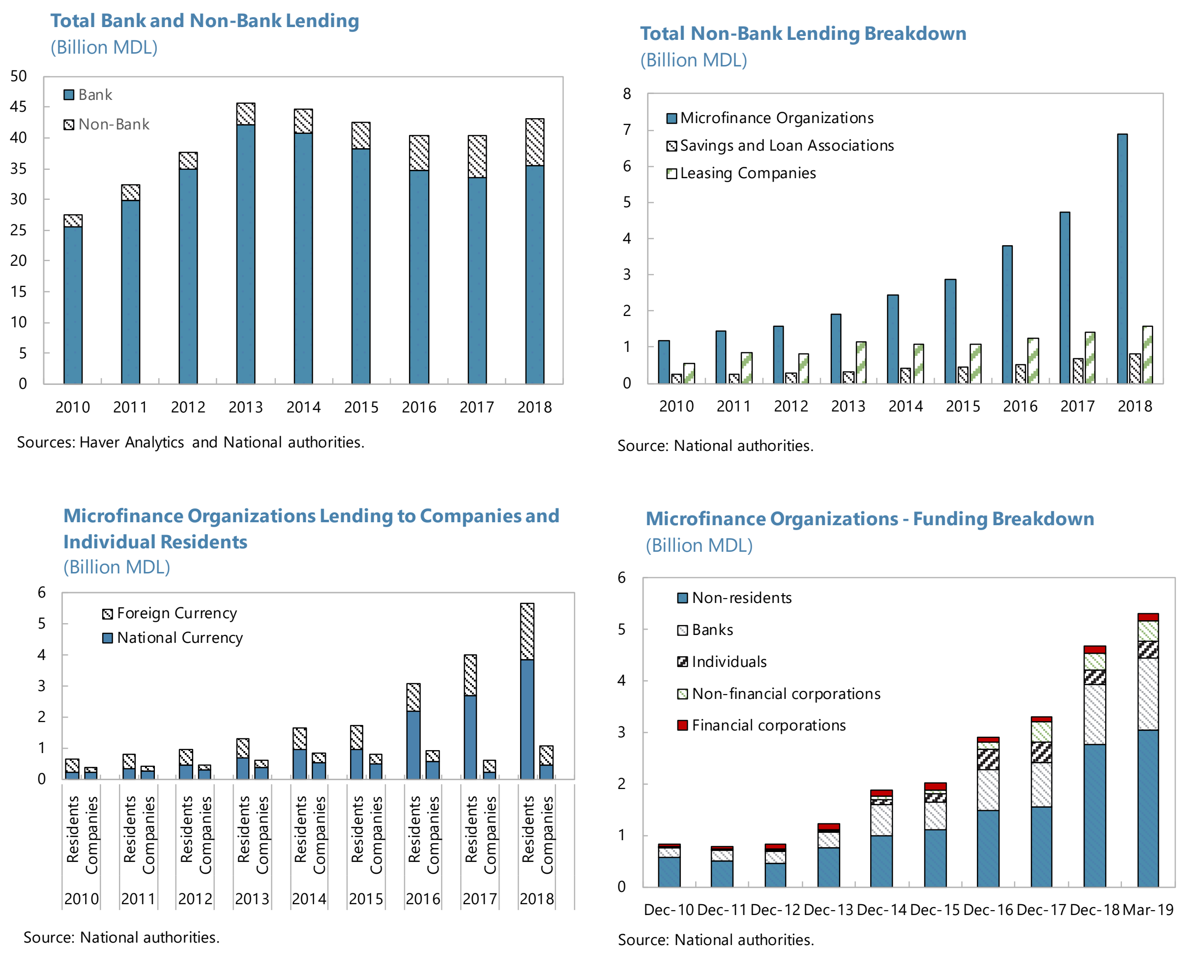
Sources: NBM and IMF staff calculations.

20. The Central Securities Depository (CSD) is fully operational. The single CSD was designed to support increased investments in the local capital market and develop new financial instruments. It is responsible for the registration, safekeeping (as custodian of ownership records of government and corporate securities), and settlement of securities issued by Moldovan entities. The legal records of shares of banks and insurance companies were transferred to the CSD in May. Records of joint-stock companies traded at the exchange and all other joint stock companies will be transferred by end-2019 and 2020, respectively.

21. The authorities continue to strengthen Moldova's financial safety net, crisis prevention, and contingency planning frameworks. Towards this objective, the governance structure and coverage of the Deposit Guarantee Fund were strengthened by appointing all supervisory board members, raising its coverage limit to MDL 50 thousand (about 31 percent and 97 percent of total deposits and depositors, respectively), and expanding its coverage to legal entities (effective January 1, 2020). Also, the National Financial Stability Committee—established to coordinate the implementation of macro-prudential policy and activities to prevent and remedy financial crises—held its inaugural meeting in January 2019.

22. While not yet systemic, risks in the non-bank financial sector are rising. In particular, lending by microfinance organizations has increased sharply as they exploited regulatory arbitrage (given tighter banking sector supervision) and filled the void created as banks recovered from the 2014 fraud. Weak supervisory capacity, absence of mandatory credit history checks and ineffective consumer protection mechanisms, non-transparent UBOs, and opaque non-resident funding raise concerns about the potential for household overleveraging, predatory lending practices, and money laundering risks. Spillovers to the banking sector could occur through confidence and funding channels.

Moldova: Non-bank Financial Sector Developments



Policies

23. The authorities continue advancing efforts to rehabilitate the banking system:

- **MICB's exit from temporary administration in an orderly manner.** The temporary administration regime, in place since October 2016, is expected to be withdrawn once adequate governance structures are in place (***end-December SB, reset from end-October 2018***). Priority must be given to ensure prudent management of the bank and avoid conflicts of interest or reputational hazards. In this context, the NBM should stand ready to ensure rigorous professional standards for the bank's new management team and enhanced monitoring of its related party exposures and cross-border transactions.

- **Removing unfit shareholders in domestic non-systemic banks (*end-March SB*).** With an objective to safeguard the banks' capital and ensure fit and proper ownership structures, and fully in line with the shareholder removal legal framework, the NBM rejected in July a request to further extend the deadline for sale of shares held by unfit shareholders of two banks, thereby triggering the process of cancellation of problem shares (***prior action***). While the unfit shareholders of one of these banks have challenged the NBM's concerted action decision in court, the NBM should stand ready to appeal any decision that undermines the irreversibility of its supervisory decisions.

24. The NBM's operational framework for emergency liquidity assistance (ELA) has been significantly strengthened. Amendments to the NBM Act and other relevant legislations were approved in August (***prior action***) with a view to ensure that ELA can be extended only to solvent and viable banks. The modified ELA framework is expected to be implemented before end-2019.

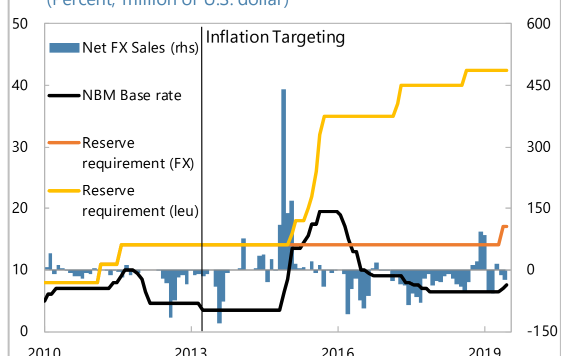
25. The authorities and staff agreed on measures to mitigate risks from non-banks. Specifically, legislation governing activities of non-bank credit organizations will be amended (***new end-October SB***) to: (i) prohibit them from accepting deposits from the public, per provisions of the Law on Bank Activity; (ii) oblige them to report new credit activity to credit bureaus; (iii) introduce limits on total cost of consumer credits; and (iv) introduce an effective, proportionate, and dissuasive sanctioning regime. Staff also urged the authorities to implement risk-based supervision and to strengthen ownership transparency, governing bodies, asset classification, risk management, and internal control frameworks. The National Commission for Financial Markets (NCFM) capacity to implement reforms should be reviewed, with a view to strengthen the regulatory framework and supervisory capacity.

C. Monetary and Exchange Rate Policy: Keeping Inflation Under Control and Strengthening NBM's Operational Framework

Background

26. The NBM tightened monetary policy in June, for the first time since December 2017, and again in July. The policy rate was raised by 100 basis points to 7.5 percent, with the NBM citing inflationary pressures from higher wages, credit growth and a positive fiscal impulse. This decision was broadly in line with staff advice to keep inflation within the band around the target. The required reserve ratio on bank's convertible currencies was raised by 3 percentage points to 17 percent while that on nonconvertible currencies was unchanged at 42.5 percent. Following an appreciation cycle throughout 2018, the leu oscillated substantially in 2019 and, in recent months, the NBM appropriately reduced its footprint in the foreign exchange market.

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



Source: National Bank of Moldova.

Policies

27. The NBM should stand ready to adjust its policy rate further, as needed, to maintain inflation within the corridor. A less accommodative monetary policy stance is appropriate given expected inflationary pressures from the expansionary fiscal impulse, nominal currency fluctuations, and adjustments to regulated prices. This should be supported by greater exchange rate flexibility, with FX interventions limited to smoothing excessive volatility in the foreign exchange market and maintaining adequate reserve coverage.

28. The NBM and staff agreed on the need to strengthen its inflation-targeting operational framework. In line with recent MCM advice, the NBM will enhance its liquidity management and the transmission of monetary policy by (i) adhering to the policy rate as its primary tool; (ii) gradually recalibrating the reserve requirement ratios on domestic and foreign currency requirements to disincentivize foreign currency intermediation, while carefully monitoring liquidity considerations; and (iii) adopting an FX intervention strategy consistent with the inflation targeting regime to facilitate two-way exchange rate flexibility and reduce the NBM's market footprint, consistent with IMF technical assistance (***new end-December SB***). Staff also recommended that the NBM strengthens its public communication to improve market signaling of policy intentions and ascertain policy awareness and credibility.

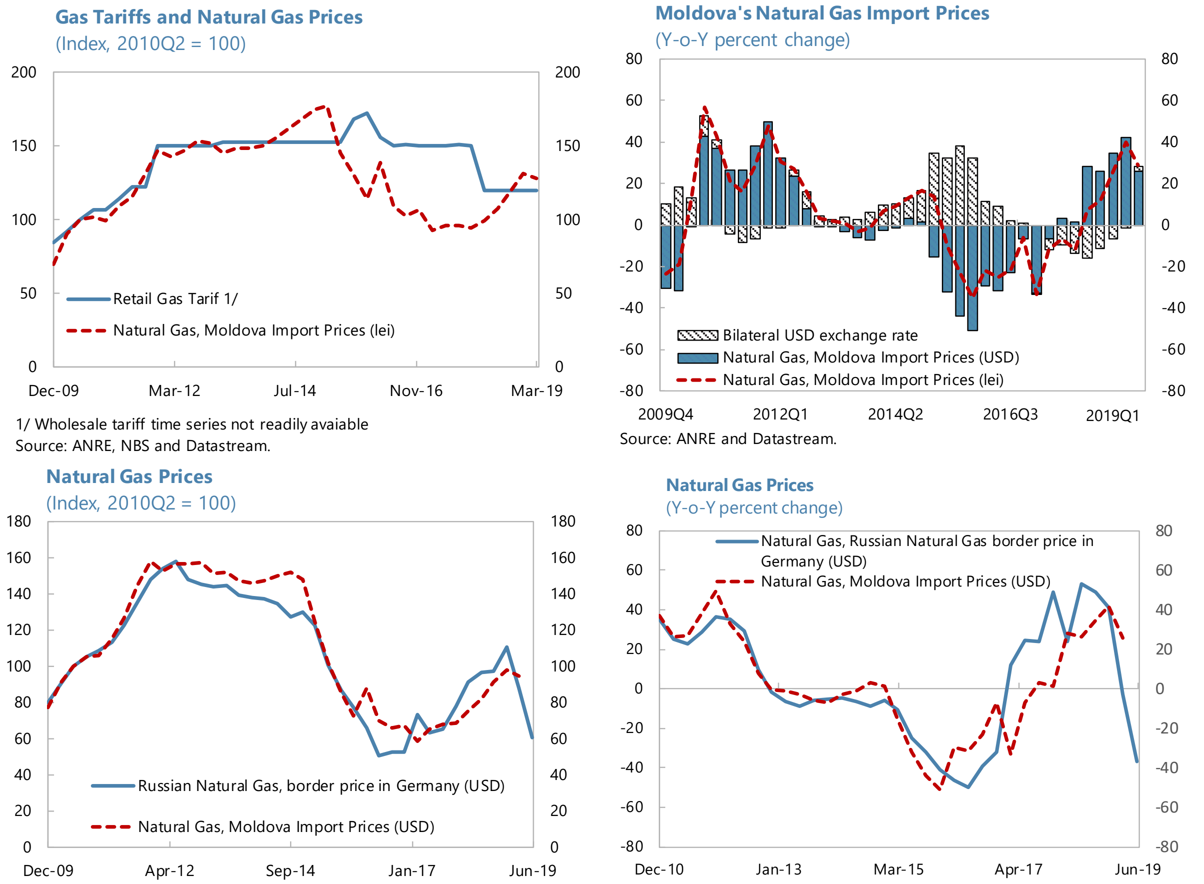
29. The NBM's policy and institutional independence is vital to achieving its mandate. Operational independence of the NBM plays a pivotal role in sustaining confidence in—and recovery of—the banking system, enhancing the credibility of the inflation-targeting regime, and safeguarding macro-financial stability. In this context, several recent incidents of political pressure on the National Bank of Moldova pose serious concerns. Against this background, staff engaged new political decision makers to stress the utmost importance of safeguarding the NBM's independence.

D. Structural Reforms

Background

30. Energy sector policies were broadly in line with program commitments last year, but 2019 tariffs were delayed. Electricity tariffs were set by the energy regulator in line with the new methodology and published in the official gazette on June 29, 2018 (***end-June 2018 SB***). Disputes between the regulator and the major electricity provider over past financial deviations were settled through an agreement on 2018-19 tariffs and investments. However, the regulator failed to promptly approve 2019 gas tariffs, against the background of higher-than-expected import costs for natural gas, turbulent political developments, and changes to the regulator's top management.

Moldova: Gas Price Developments



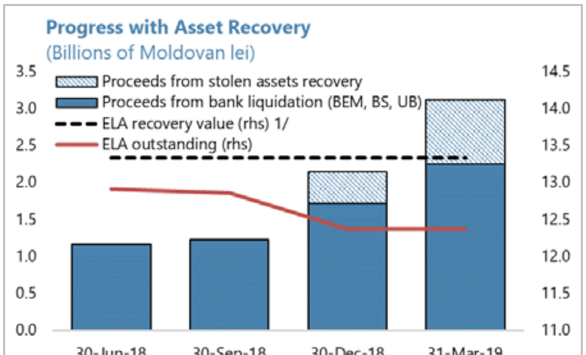
1/ Wholesale tariff time series not readily avaiable
Source: ANRE, NBS and Datastream.

Source: ANRE and Datastream.

Source: ANRE and Datastream.

Source: ANRE and Datastream.

31. **Recovery of stolen assets from the 2014 banking fraud has been slow.** By end-March 2019, the total value of recovered assets in the form of proceeds from bank liquidation (BEM, BS and UB) and confiscation of assets of convicted persons (MAIB and MICB shares) was significantly below the value of criminal cases under investigation (MDL 3.1 billion vs. MDL 8.7 billion). The scope for recovering proceeds becomes increasingly difficult as time elapses.



Sources: NBM and IMF staff calculations.
1/ Represents the total value of state securities issued for the securitization of ELA loans granted by the NBM to three banks as per government decisions from November 13, 2014 and March 30, 2015.

32. **Further efforts are needed to strengthen the effectiveness of Moldova's AML/CFT framework**. The authorities should ensure that AML/CFT supervision of financial institutions (including on-site inspections) is effectively risk-based and sanctions for AML/CFT violations are

effective, proportionate and dissuasive. The quality of suspicious transaction reports (STR) filed by reporting entities (such as banks) need to be improved. Enhanced capacities and resources for the Service for Prevention and Fight against Money Laundering in analyzing STRs will contribute to developing financial intelligence for criminal investigations. The authorities are also encouraged to address deficiencies and implement recommendations in relation to MONEYVAL's 2019 comprehensive AML/CFT assessment, which is expected to be published following the July Plenary.

Policies

33. The authorities reiterated their commitment to regular reviews of energy tariffs. Towards this objective, the regulator will conduct regular reviews to promote transparency and predictability in the sector, minimize contingent liabilities and, by end-October, adopt (i) new electricity tariffs based on the February 2018 methodology, and (ii) gas tariffs based on the existing methodology and purchase price of natural gas (***new end-October SB***). Regular updates of the eligibility and benefit parameters of targeted social assistance programs, such as Ajutor Social and Heating Allowance, will enhance the targeting and effective coverage of social assistance programs, while also mitigating adverse effects of tariff increases on vulnerable households.

34. The new government signaled strong commitment to investigating the 2014 bank fraud and making tangible progress on asset recovery. The authorities plan to initiate an international investigation to prosecute the perpetrators. By end-October, they intend to evaluate appropriate modalities to recover stolen proceeds, including through engaging independent international legal and forensic experts. Staff urged to step up coordination among all relevant stakeholders, including the NBM, the Prosecutor's office, the National Anticorruption Center, Criminal Asset Recovery Agency, and the AML agency.

35. The authorities are committed to strengthening Moldova's AML/CFT framework, including by implementing the 2018 AML Law and MONEYVAL recommendations. By end-2019, they plan to adopt the Law on Sanctions for violations of ML/TF rules, developed in coordination with the Council of Europe and European Union. They also plan to engage international partners to initiate a new National ML/TF Risks Assessment. Finally, they are developing new guidelines for exchange of AML/CFT information among all relevant stakeholders and a new IT system for reporting suspicious transactions for all types of reporting entities.

36. Efforts to enhance governance and anti-corruption measures will contribute to improving the business climate and levelling the playing field. The independence and capacities of anti-corruption institutions including the National Integrity Authority should continue to be enhanced. Strengthening the asset declaration system (including with respect to the scope of ownership information and timely and credible verification) should be prioritized. AML tools such as enhanced due diligence for politically exposed persons should also be leveraged to detect and deter corruption.

PROGRAM MODALITIES

37. To ensure that program objectives can be met, staff supports the authorities' request for the completion of the inflation consultation, an extension of the current arrangements, and a rephasing of access. Staff supports (i) the extension of the ECF/EFF arrangements to March 20, 2020; (ii) the addition of a sixth program review based on end-December 2019 quantitative performance criteria (MEFP Table 1) and new structural benchmarks; and (iii) the rephasing of the outstanding program purchases with SDR 33.6 million and SDR 14.4 million to be disbursed at the time of the combined fourth/fifth and sixth reviews, respectively. This reprofiling reflects mainly changes in the Moldova's BOP needs due to the expected timing of disbursement of the World Bank Development Policy Operation.

38. Staff proposes updated program conditionality (MEFP Table 2):

- **Six prior actions** for the completion of the fourth/fifth reviews were set on: (i) the adoption of amendments to the 2019 budget consistent with the augmented general government deficit ceiling; (ii) the approval of amendments to the Tax and Customs Codes (effective January 1, 2020) to rationalize tax expenditures and raise revenues; (iii) the approval of amendments to the Tax Code to remove provisions for the deduction of up to MDL 500,000 from the indirect method assessment of estimated taxable income, and to sunset by 2022 the carryover provision from the 2012 capital liberalization scheme; (iv) the approval of amendments to the 2018 Capital and Tax Amnesty Law to remove the provision that STS cannot perform audits prior to January 1, 2018; (v) the approval of amendments to the NBM Act and other laws to ensure that ELA is extended only to solvent banks; and (vi) the removal of unfit shareholders in two domestic non-systemic banks.

- **One SB is proposed to be reset.** The systemic bank (MICB) is expected to exit temporary administration in an orderly manner by **end-December**.

- **Four new SBs** are proposed with a view to support the structural reform focus of the new government in 2019: (i) for **end-October** on the adoption of 2019 gas tariffs; (ii) for **end-October** on the amendment of the legislation governing activities of non-bank credit organizations; (iii) for **end-December** on the proposal of a date and adoption of an action plan for the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes; and (iv) for **end-December** on the adoption of an FX intervention strategy to facilitate two-way exchange rate flexibility and reduce the NBM's market footprint, consistent with IMF technical assistance.

39. The program remains fully financed, with firm financing assurances in place for the remainder of the program period and the next 12 months. The size of the external financing gap—estimated at US$171 million in 2019—will be fully covered by the resumption of disbursement of EU's MFA and budget grants (US$124 million, of which up to US$71 million set aside for MFA budget support grants and loans), and Fund disbursement of SDR 33.6 million (US$ 46.5 million), of which SDR 20.1 million (US$27.9 million) disbursed for budget support (ECF: SDR 6.7 million and EFF: SDR 13.4 million). External financing would allow reserves to reach the top of the Fund's ARA metric by end-2019 (165 percent of the metric). In 2020, the smaller external financing gap, at US$132 million, will be financed mainly by EU funds (US$72 million) and the World Bank's Development Policy Operation (US$40 million), with the residual gap closed via a disbursement equivalent to SDR 14.4 million (US$20 million) under the ECF/EFF.

40. Moldova is expected to meet its repayment obligations to the Fund and remains at low risk of debt distress. Obligations to the Fund peaked at 0.9 percent of GDP in 2017 and are projected to decline to 0.2 percent by 2024 (Table 5). Payments to the Fund are estimated at 2.1 percent of exports of goods and services in 2019 and are projected to decline gradually to below 1 percent by 2024.

41. Risks to the program remain high but are mitigated by the new government's commitment to strong prior actions, adequate buffers, and the normalization of relations with donors. The authorities are committed to program objectives, and cognizant of potential risks from reform fatigue or resurgence of domestic political instability. Moldova's external reserve buffer remains adequate, safeguarding against abrupt external adjustment in the event of intensification of spillovers from regional geopolitical and global trade tensions. Fiscal slippages have been addressed, the monetary policy framework is being strengthened, and the financial sector is on a stronger footing. Normalization of relations with the EU and other donors should help sustain the reform momentum and catalyze external financing.

STAFF APPRAISAL

42. Pre-election policy reversals have been addressed and the program is back on track to achieve its objectives. Despite delays in completing program reviews, the new authorities have taken important actions, affirming their strong commitment to the program amid a complex domestic political environment. However, macro-financial vulnerabilities and important structural impediments remain significant, thereby clouding the outlook for strong and sustainable growth and raising living standards. Also, previous policy slippages show that progress is not irreversible. It is therefore critical that prudent and well-coordinated macroeconomic policies are pursued, and reforms continue, notably to complete the cleansing of the financial sector, improve governance, strengthen institutional frameworks, and ensure transparency and predictability in the energy sector.

43. Significant progress has been achieved in the financial sector's reform agenda—a crucial pillar of the program, but remaining actions need to be completed. The authorities completed many of the measures to secure shareholder transparency, fitness, and probity of the domestic banking system. Also, good progress has been achieved in improving supervision, regulatory frameworks, unwinding bank related-party exposures, and strengthening financial safety nets. Critical next steps include exit of the second largest bank from temporary administration, addressing rising risks in the non-bank financial sector, and improving the AML/CFT framework. To regain public trust in state institutions, decisive progress needs to be demonstrated on the long-delayed process of asset recovery.

44. The amended 2019 budget and measures to rationalize tax expenditures and raise revenue help mitigate immediate fiscal pressures, but continued vigilance is imperative. Strong implementation of the agreed budget envelope and continued monitoring of revenue performance following the adopted measures will be key in ensuring fiscal sustainability, while securing the needed fiscal space for priority social and development projects. Policy reversals need to be avoided, and new initiatives carefully costed. Continued efforts are needed to strengthen tax administration and tax compliance, streamline tax expenditures, and reduce risks from SOEs and PPPs. A comprehensive strategy to strengthen public investment management would help improve the efficiency of public investments and scale up public infrastructure.

45. Monetary policy should continue to focus on maintaining price stability, in the context of a flexible exchange rate regime, while the NBM's operational framework needs to be strengthened. The NBM should continue monitoring the inflation outlook closely and stand ready to adjust its policy rate as needed. The policy rate should be reinstated as the primary signal of the stance of monetary policy, while the reserve requirement framework needs to be gradually recalibrated to favor intermediation in domestic currency. Intervention in the foreign exchange market should be limited to smoothing excess volatility. The NBM should also continue to improve its operational capacity, including by strengthening decision-making, improving coordination across agencies, and reinforcing internal and external communication.

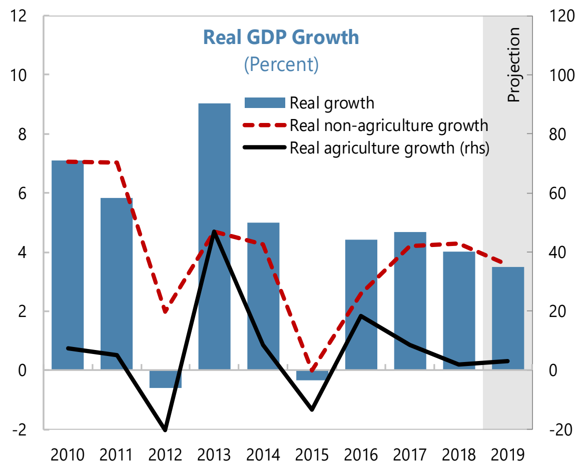
46. Safeguarding the NBM's independence is critical. Legal reforms enacted in the aftermath of the 2014 banking crisis and supported by the IMF have strengthened the NBM's governance structure, balance sheet, and autonomy. To protect this hard-earned progress, political decision makers should refrain from any initiative to weaken the NBM's operational independence or governance framework, as these would undermine its ability to fulfill its mandates of maintaining price and financial sector stability, which are fundamental for sustainable economic development.

47. Progress is needed to unlock Moldova's economic potential. The new government's commitment to improving governance and fighting corruption is welcome and critical for boosting long-term growth. Progress towards structural bottlenecks—including weak bank intermediation, non-transparent energy policy, and promoting a business-friendly environment—can boost growth potential and low incomes.

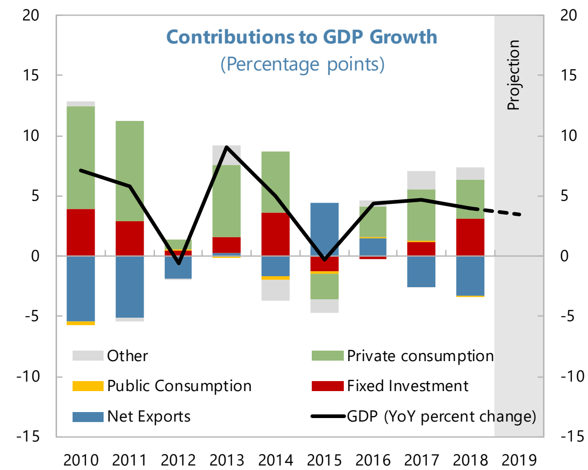
48. In light of progress so far and the authorities' policy commitments, staff supports the completion of the fourth and fifth reviews under the ECF/EFF-supported program, completion of the inflation consultation, the extension of arrangements, and the rephasing of access. The program remains broadly on track, with strong ownership. While risks to the program remain, the firm commitment by the new government to sound economic management and ongoing reforms warrants continued Fund support.

Figure 1. Moldova: Real Sector Developments, 2010–19

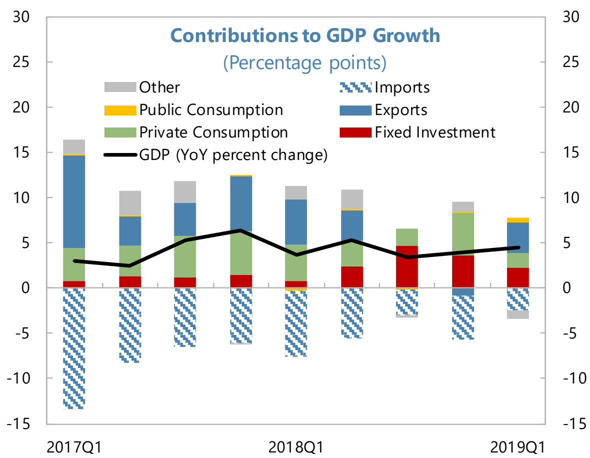
Growth remains solid…



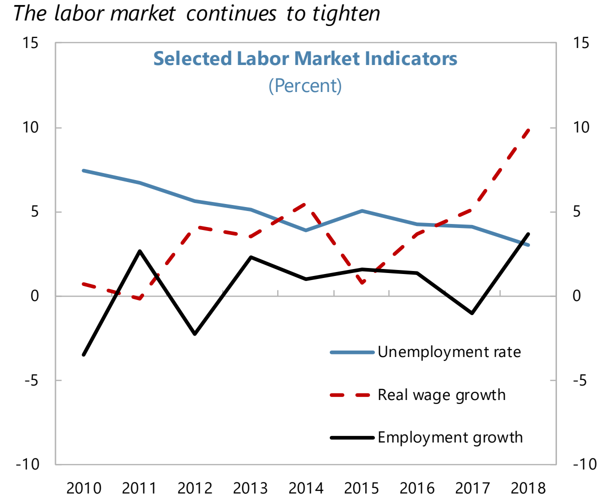
… as domestic demand strengthened in 2018…



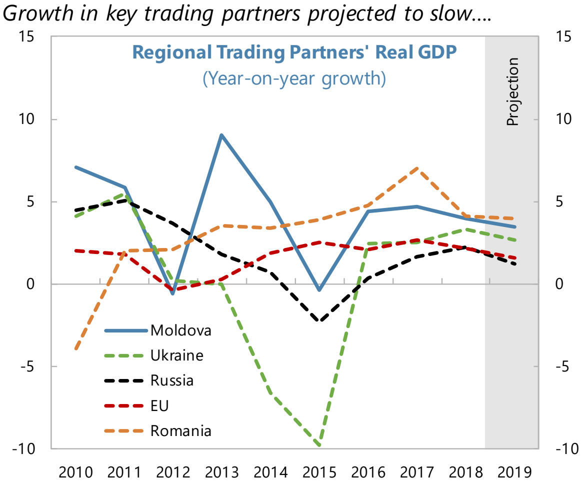
….and exports rebounded in early 2019.



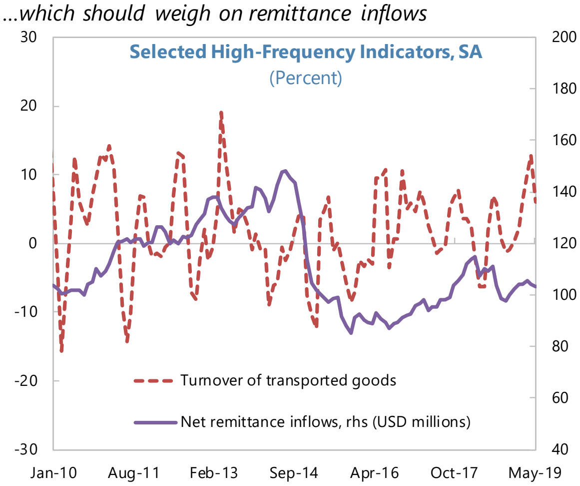
The labor market continues to tighten



Growth in key trading partners projected to slow….



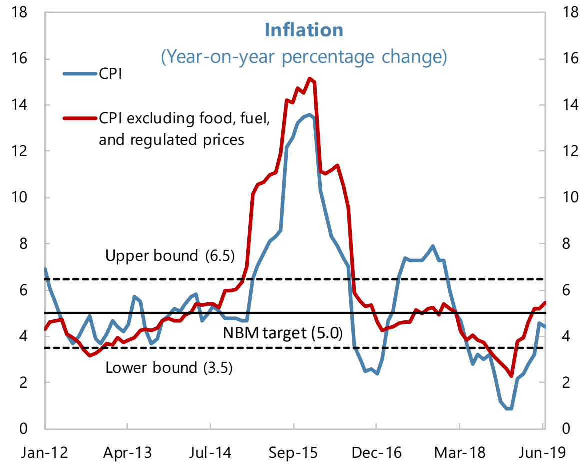
…which should weigh on remittance inflows



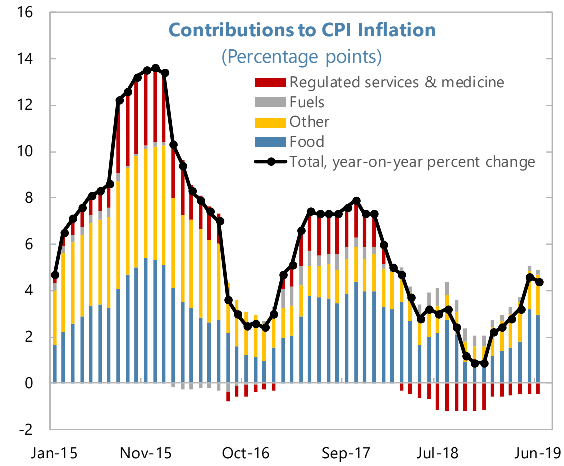
Sources: Moldovan authorities; National Bureau of Statistics of the Republic of Moldova; and IMF staff calculations.

Figure 2. Moldova: Money, Prices, and Interest Rates, 2011–19

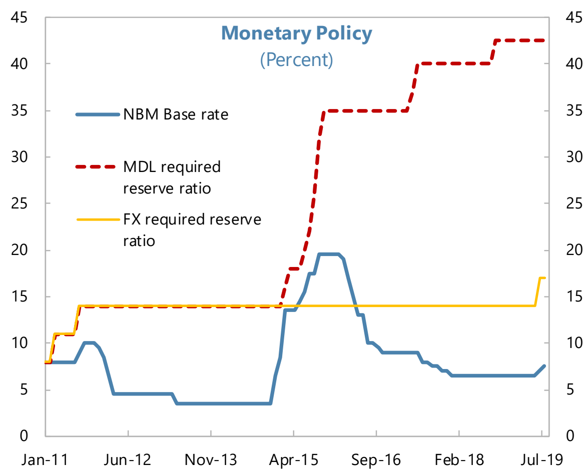
Inflation recovering after dipping below the lower bound….



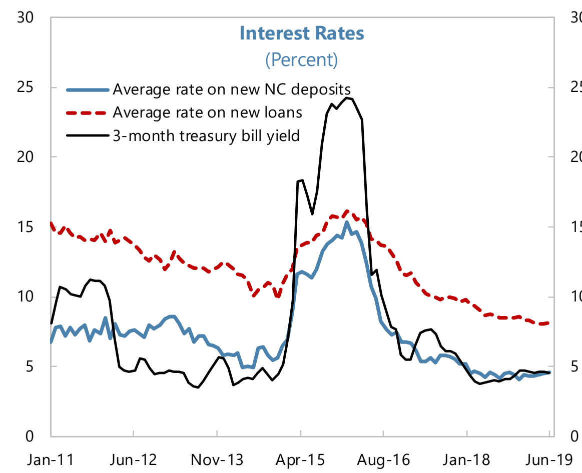
…driven by a rebound in food and core inflation



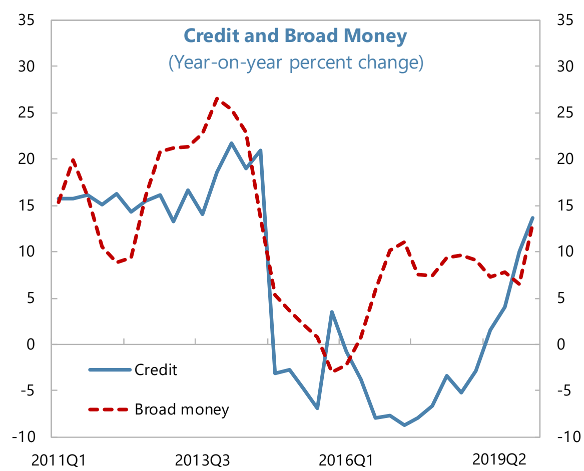
Policy tightening and reserve requirement recalibration have started…



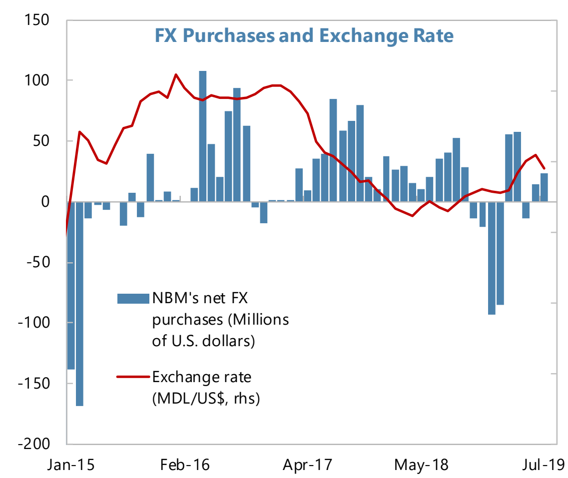
…and should feed through to market interest rates



Lending picking up as financial sector cleanup progresses



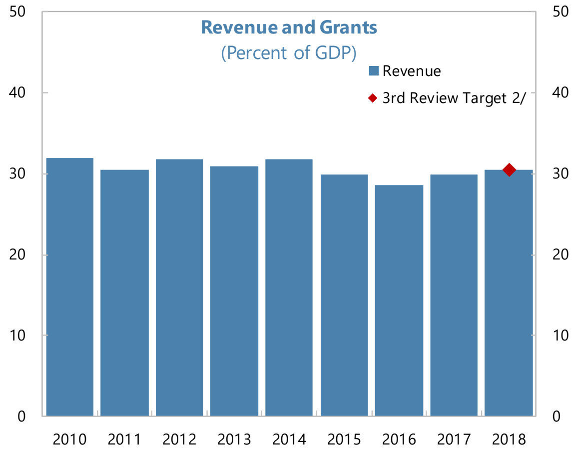
Reduced NBM intervention in recent months



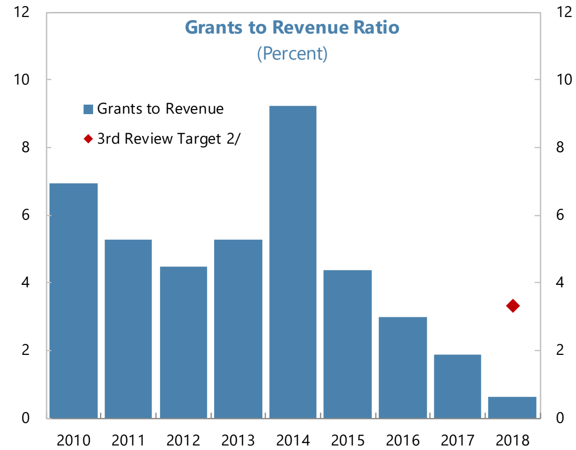
Sources: Moldovan authorities; and IMF staff calculations.

Figure 3. Moldova: Fiscal Developments, 2009–2018 1/

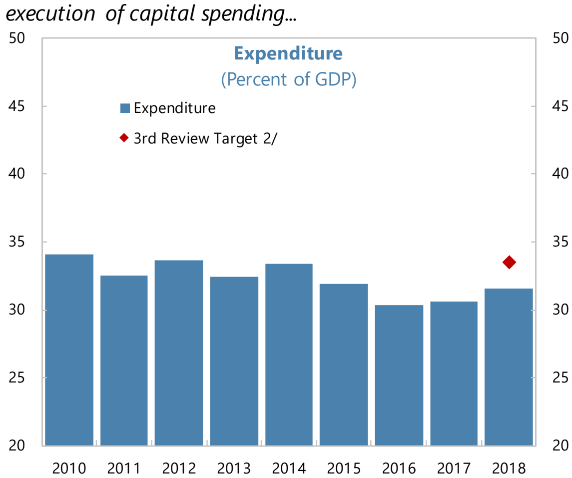
Rising revenues likely partially reflect improved tax administration.



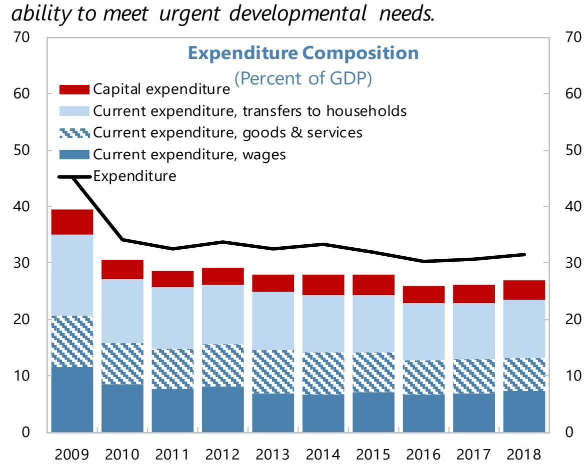
External grants have been on a declining path.



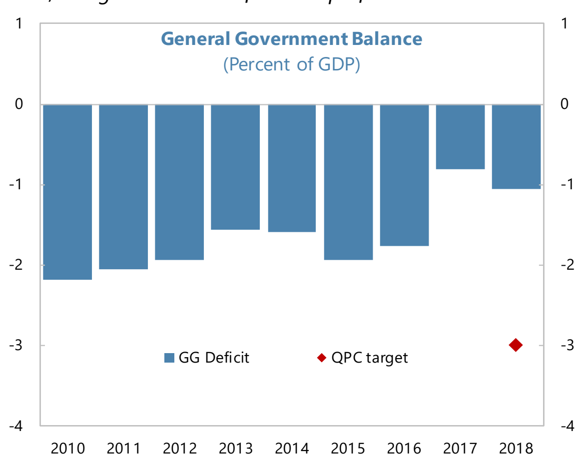
Expenditures underperformed largely due to under-execution of capital spending...



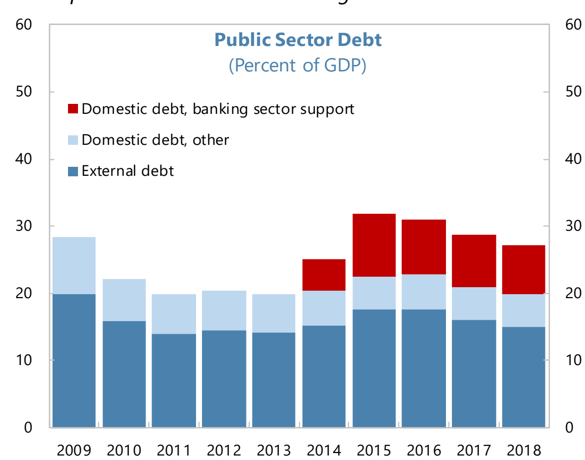
...and public investments remain sub-par, hindering the ability to meet urgent developmental needs.



Thus, the government deficit overperformed...



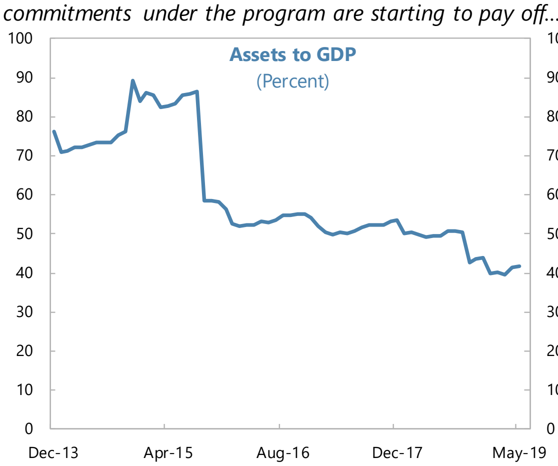
...and public debt remained manageable.



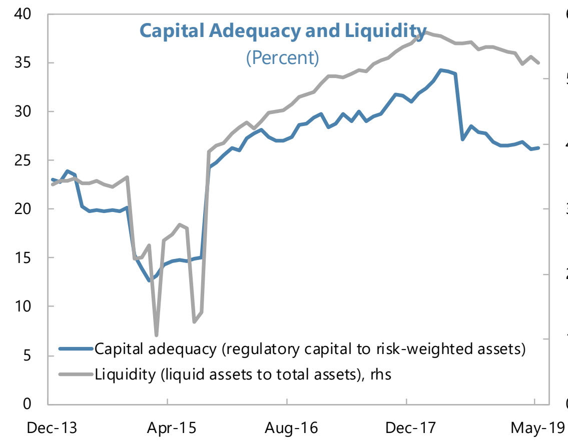
Sources: Moldovan authorities; and IMF staff calculations.
1/ General government overall balance. Higher education institutions are excluded from the budget from 2013. This results in a sizeable reduction of nontax revenue, offset by lower current expenditure.
2/ Targets are calculated as the absolute value in lei as a percent of current GDP.

Figure 4. Moldova: Banking Sector Developments, 2013–19

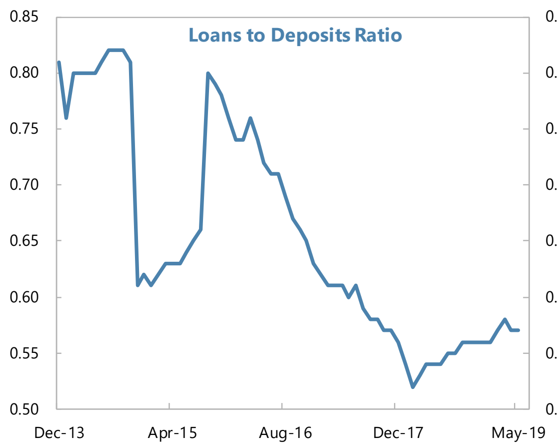
Strong delivery by the authorities on financial sector commitments under the program are starting to pay off….



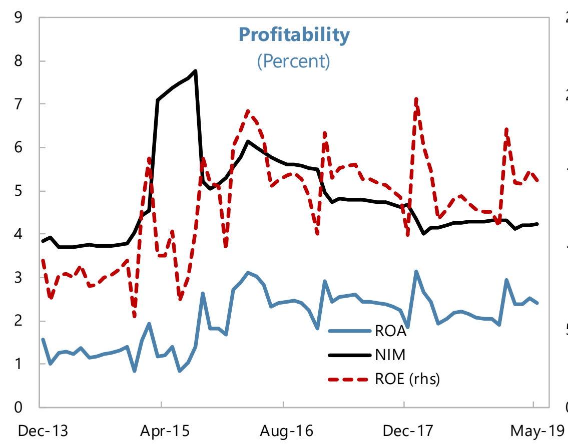
…with financial soundness indicators remaining strong …



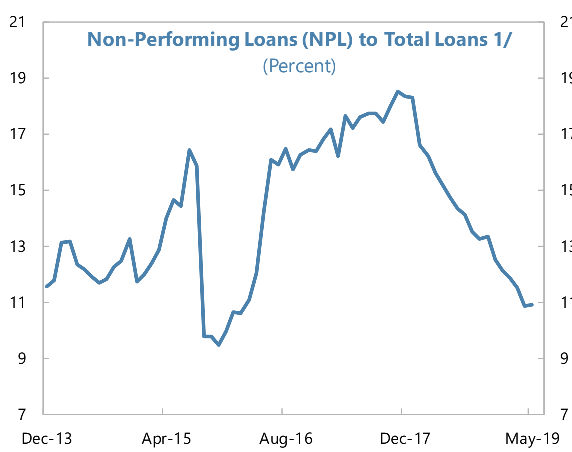
…and lending to the economy picking up as banks regain their health….



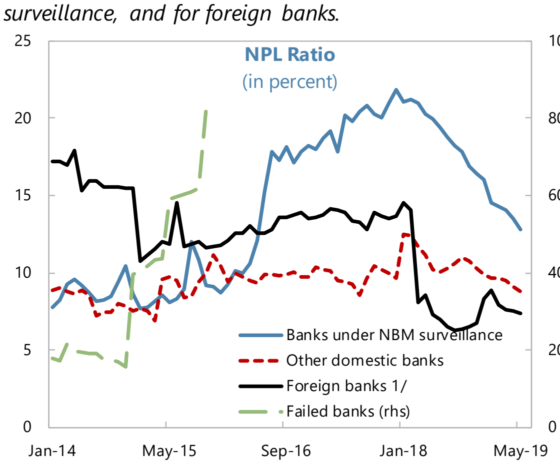
…amidst steady profitability indicators….



…with gradually improving NPL ratios…



…particularly for banks (previously) placed under NBM's surveillance, and for foreign banks.

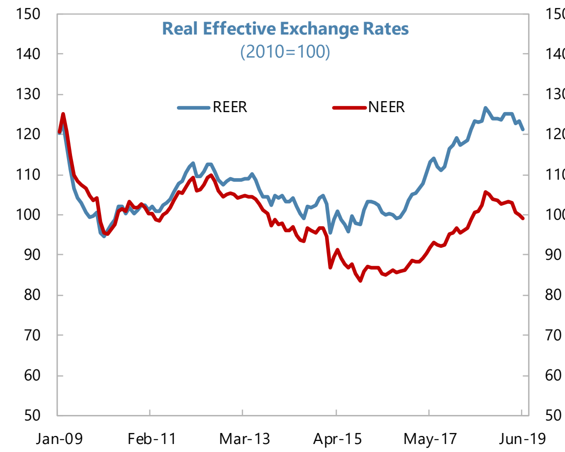


Sources: National Bank of Moldova; and IMF staff calculations.

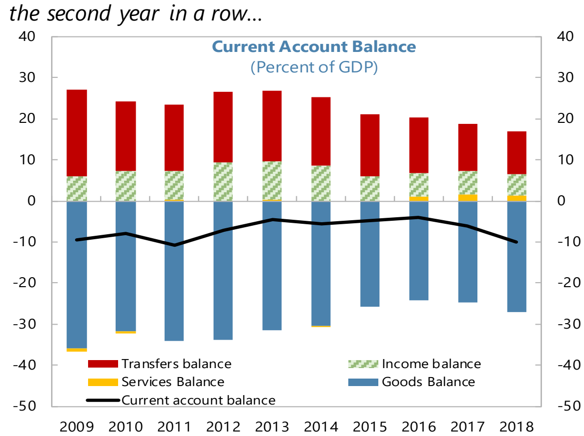
1/ The acquisition of EXIMBANK by Veneto Banca S.p.A. in February 2018 required mandatory liquidation of NPLs and loan balances.

Figure 5. Moldova: External Sector Developments, 2009–2019

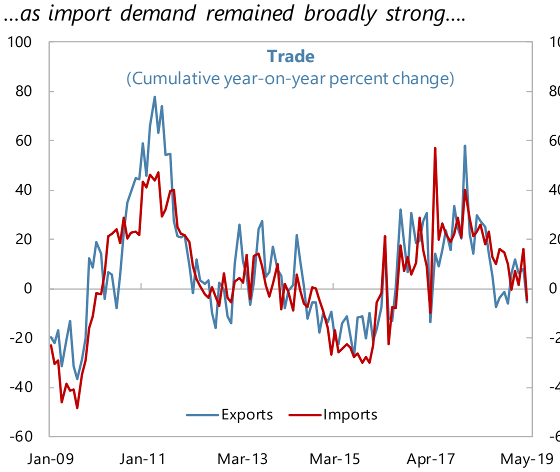
Both the NEER and REER appreciated since 2017…



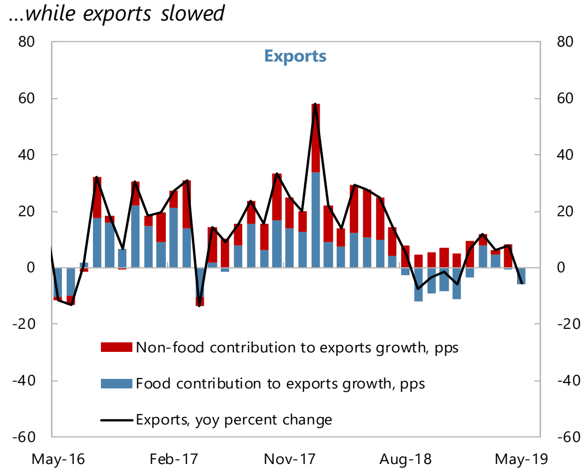
…pushing the current account deficit to widen notably for the second year in a row…



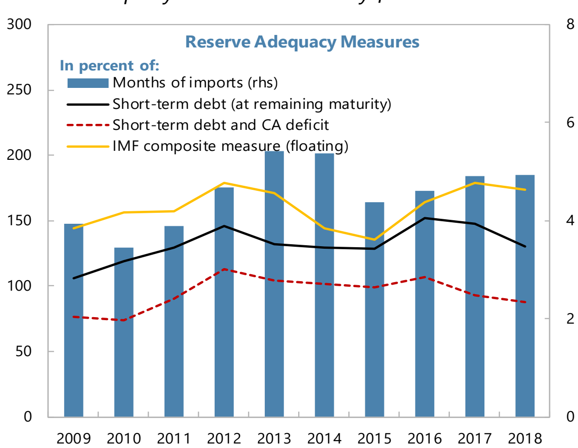
…as import demand remained broadly strong….



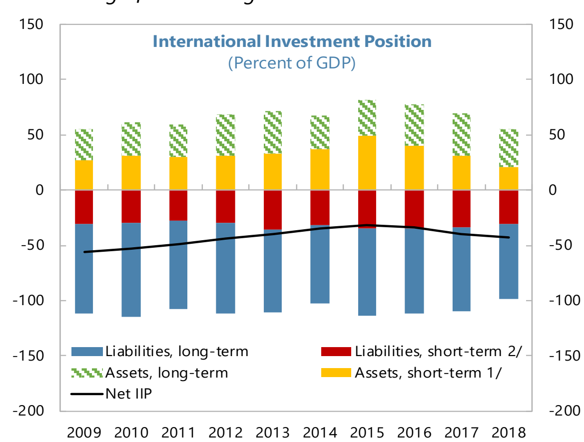
…while exports slowed



Reserve adequacy metrics are broadly favorable…



…with insignificant changes to Moldova's net IIP.



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

1/ Short-term assets include portfolio investment, financial derivatives, trade credits and currency and deposits.

2/ Short-term liabilities include portfolio investment, financial derivatives, trade credits, short-term loans by banks and other sectors, currency and deposits, short-term other liabilities by general government, banks and other sectors.

Table 1. Moldova: Selected Economic Indicators, 2015–2024 1/

	2015	2016	2017		2018		2019	2020	2021	2022	2023	2024
			3rd Review	Actual	*3rd Review*	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)											
Real sector indicators												
Gross domestic product												
Real growth rate	-0.3	4.4	*3.5*	4.7	*3.8*	4.0	3.5	3.8	3.8	3.8	3.8	3.8
Demand	-4.1	2.6	*3.3*	6.8	*5.1*	6.4	5.8	3.9	3.1	3.0	2.8	2.9
Consumption	-2.3	2.6	*3.0*	4.7	*5.2*	3.2	4.4	3.4	3.5	3.1	3.3	3.1
Private	-2.4	2.9	*2.0*	5.3	*5.7*	3.8	3.6	3.4	3.2	3.2	3.0	3.0
Public	-1.4	0.6	*8.3*	1.1	*3.3*	-0.1	9.3	3.2	4.8	2.6	4.9	3.9
Gross fixed capital formation	-4.8	-0.9	*5.8*	8.0	*4.8*	14.0	2.7	6.5	2.0	2.7	0.7	2.0
Net Exports of goods and services	14.2	5.9	*-2.5*	-11.2	*-9.7*	-14.3	-5.8	-4.7	-1.9	-1.4	-0.6	-1.0
Exports of goods and services	2.6	9.8	*12.5*	10.9	*9.1*	4.8	8.8	6.5	6.4	6.1	5.4	4.9
Imports of goods and services	-5.8	2.8	*8.6*	11.0	*9.3*	8.9	7.5	5.7	4.4	4.1	3.4	3.3
Nominal GDP (billions of Moldovan lei)	145.8	160.8	*148.7*	178.9	*163.0*	190.0	207.3	226.8	247.2	269.5	293.7	320.1
Nominal GDP (billions of U.S. dollars)	7.7	8.1	*8.0*	9.7	*9.7*	11.3	11.7	12.3	13.0	13.7	14.5	15.4
Consumer price index (average)	9.6	6.4	*6.5*	6.6	*3.6*	3.1	4.9	5.7	5.0	5.0	5.0	5.0
Consumer price index (end of period)	13.5	2.4	*7.0*	7.3	*3.0*	0.9	7.5	5.0	5.0	5.0	5.0	5.0
GDP deflator	9.6	5.7	*6.5*	6.3	*4.5*	2.1	5.4	5.4	5.0	5.0	5.0	5.0
Average monthly wage (Moldovan lei)	4,611	5,084	*5,700*	5697	*6180*	6,446	7,320	7,953	8,619	9,328	10,150	10,150
Average monthly wage (U.S. dollars)	244	255	*307.3*	308	*367*	384	413	431	452	475	502	488
Unemployment rate (annual average, percent)	5.0	4.2	*4.2*	4.1	*4.1*	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Poverty headcount ratio at national poverty lines (percent)	9.6	…	…	…	…	…	…	…	…	…	…	…
	(Percent of GDP)											
Saving-investment balance												
Foreign saving	4.8	3.9	*6.3*	6.0	*7.7*	10.1	9.5	9.1	8.4	7.8	7.2	6.7
National saving	19.5	18.3	*16.3*	16.3	*14.3*	14.2	14.7	15.9	15.8	15.9	15.8	15.8
Private	18.2	16.6	*12.3*	13.9	*11.1*	11.9	13.6	14.7	14.9	14.7	14.6	14.5
Public	1.3	1.8	*4.1*	2.4	*3.2*	2.3	1.1	1.1	0.8	1.2	1.2	1.3
Gross investment	24.3	22.2	*22.6*	22.3	*22.0*	24.3	24.3	24.9	24.2	23.7	22.9	22.5
Private	20.6	19.1	*17.7*	19.1	*17.1*	20.9	20.2	20.7	20.5	20.3	19.5	19.1
Public 2/	3.7	3.1	*4.9*	3.2	*5.0*	3.4	4.1	4.2	3.7	3.5	3.4	3.4
Fiscal indicators (general government)												
Primary balance 3/	-1.2	-0.7	*-1.8*	0.3	*-2.5*	-0.4	-2.2	-2.2	-2.1	-1.4	-1.3	-1.2
Overall balance 3/	-1.9	-1.8	*-3.1*	-0.8	*-3.5*	-1.1	-3.0	-3.0	-2.9	-2.2	-2.2	-2.1
Stock of public and publicly guaranteed debt	39.5	37.0	*40.6*	32.7	*37.4*	30.6	31.5	32.3	32.8	32.7	32.6	32.5
	(Percent change, unless otherwise indicated)											
Financial indicators												
Broad money (M3)	-3.0	10.2	*11.3*	9.4	…	7.8	16.1	13.8	…	…	…	…
Velocity (GDP/end-period M3; ratio)	2.3	2.3	*1.9*	2.3	…	2.3	2.1	2.1	…	…	…	…
Reserve money	7.1	12.1	*19.4*	11.2	…	17.7	13.1	13.8	…	…	…	…
Credit to the economy	3.5	-7.6	*-1.9*	-3.4	…	4.1	4.4	6.0	…	…	…	…
Credit to the economy, percent of GDP	29.3	24.5	*26.0*	21.3	…	20.9	20.0	19.4	…	…	…	…
	(Millions of U.S. dollars, unless otherwise indicated)											
External sector indicators												
Current account balance	-367	-314	*-369*	-579	*-748*	-1141	-1116	-1113	-1095	-1077	-1040	-1025
Current account balance (percent of GDP)	-4.8	-3.9	*-5.0*	-6.0	*-7.7*	-10.1	-9.5	-9.1	-8.4	-7.8	-7.2	-6.7
Remittances and compensation of employees (net)	1,386	1,319	*1,401*	1,495	*1,748*	1,674	1,813	1,920	2,020	2,111	2,214	2,301
Gross official reserves	1,757	2,206	*2406*	2,803	*2947*	2,995	3,025	3,046	3,068	3,124	3,293	3,499
Gross official reserves (months of imports)	4.4	4.6	*5.5*	4.9	*4.9*	4.9	4.7	4.5	4.3	4.1	4.2	4.2
Exchange rate (Moldovan lei per USD, period average)	18.9	19.9	*20.0*	18.5	*16.8*	16.8	…	…	…	…	…	…
Exchange rate (Moldovan lei per USD, end of period)	19.7	20.0	*20.1*	17.1	*16.8*	17.1	…	…	…	…	…	…
Real effective exch.rate (average, percent change)	-3.4	2.4	*-0.5*	10.5	*4.8*	9.1	1.5	-0.1	0.0	0.0	0.0	0.0
External debt (percent of GDP) 4/	79.4	76.8	*94.7*	70.5	*77.6*	64.9	64.9	65.5	65.1	64.4	64.1	63.6
Debt service (percent of exports of goods and services)	12.4	11.6	*20.3*	10.5	*10.4*	12.6	14.2	10.3	9.5	10.6	11.4	9.9

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

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

3/ Includes net on-lending to SOEs.

4/ Includes private and public and publicly guaranteed debt.

Table 2a. Moldova: Balance of Payments, 2015–2024
(Millions of U.S. dollars, unless otherwise indicated)

	2015	2016	2017	2018		2019	2020	2021	2022	2023	2024
				3rd Review	Prelim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-367	-314	-579	-748	-1,141	-1,116	-1,113	-1,095	-1,077	-1,040	-1,025
Merchandise trade balance	-1,992	-1,945	-2,393	-2,868	-3,048	-3,199	-3,362	-3,503	-3,651	-3,778	-3,906
Exports	1,985	2,061	2,431	2,795	2,715	2,956	3,199	3,436	3,667	3,892	4,127
Imports	-3,977	-4,006	-4,823	-5,664	-5,763	-6,155	-6,561	-6,940	-7,318	-7,671	-8,032
Services balance	6	88	153	179	138	163	191	221	256	292	333
Exports of services	838	908	1,067	1,234	1,215	1,306	1,400	1,489	1,581	1,669	1,762
Imports of services	-832	-820	-915	-1,055	-1,077	-1,142	-1,209	-1,269	-1,326	-1,377	-1,429
Income balance	452	458	558	642	591	637	681	718	753	787	814
Compensation of employees	700	638	763	900	862	940	1,000	1,055	1,110	1,164	1,221
Income on direct and portfolio investment	-195	-135	-160	-224	-198	-228	-239	-253	-268	-283	-300
Income on other investment	-52	-45	-45	-34	-73	-75	-79	-83	-89	-94	-107
Current transfer balance	1,166	1,086	1,102	1,300	1,178	1,283	1,377	1,470	1,565	1,659	1,735
Remittances	686	681	732	848	812	873	920	965	1,001	1,050	1,080
Budget transfers	146	97	87	110	89	97	113	122	125	130	135
Other transfers	334	307	283	341	277	313	344	383	439	479	520
Capital and financial account balance	94	791	961	770	1,318	1,048	1,042	1,115	1,166	1,227	1,257
Capital account balance	-35	-34	-35	-50	-61	-65	-65	-67	-70	-73	-77
Financial account balance	129	825	996	821	1,379	1,113	1,107	1,182	1,236	1,300	1,334
Foreign direct investment balance	154	92	137	316	156	489	281	297	324	346	368
Portfolio investment and derivatives	5	0	1	4	-5	5	9	10	11	11	12
Other investment balance	-30	733	859	501	1,229	619	818	875	901	943	954
Loans	50	17	54	208	99	31	193	219	210	233	236
General government, net	89	46	18	186	8	54	189	195	183	209	213
Private sector, net	-39	-29	36	22	91	-23	3	24	27	25	23
Other capital flows	-80	716	805	293	1,129	588	626	657	691	709	718
Errors and omissions	-57	-72	64	0	70	0	0	0	0	0	0
Overall balance	-330	405	444	22	247	-69	-71	20	89	187	232
Financing	330	-404	-443	-21	-247	69	71	-20	-89	-187	-232
Gross international reserves (increase: "-")	306	-531	-531	-156	-236	-30	-20	-22	-56	-169	-206
Use of Fund credit, net	-41	-37	-44	-21	-55	-36	-55	-50	-33	-18	-26
Monetary authorities	-35	-37	-44	-21	-41	-37	-46	-46	-26	-9	-15
Purchases	0	12	17	42	21	19	8	0	0	0	0
Repurchases	-35	-49	-62	-63	-62	-56	-54	-46	-26	-9	-15
General government	-6	0	0	0	-14	1	-9	-5	-7	-9	-11
Purchases	0	24	26	28	13	28	12	0	0	0	0
Repurchases	-6	-24	-26	-28	-27	-26	-21	-5	-7	-9	-11
Exceptional financing	64	4	-20	0	8	10	34	10	0	0	0
Other donors	...	160	152	156	36	124	112	43	0	0	0
European Commission	...	47	43	126	6	124	72	13	0	0	0
World Bank	...	45	0	30	29	0	40	30	0	0	0
Romania	...	68	108	0	0	0	0	0	0	0	0
				(Percent of GDP, unless otherwise indicated)							
Memorandum items:											
Gross official reserves (millions of U.S. dollars) 1/	1,757	2,206	2,803	2,947	2,995	3,025	3,046	3,068	3,124	3,293	3,499
Months of imports of good and services	4.4	4.6	4.9	4.9	4.9	4.7	4.5	4.3	4.1	4.2	4.2
Percent of short term debt and CA deficit	93.7	101.1	88.6	69.9	83.4	85.8	82.3	77.2	73.8	75.4	74.8
Pct of short-term debt at remaining maturity	119.5	140.4	137.1	89.0	120.8	119.5	111.6	102.2	95.4	96.0	93.2
Pct of the IMF composite measure (floating) 2/	134.1	162.4	176.3	148.3	171.0	165.2	155.9	147.2	141.0	140.9	140.5
Current account balance	-4.8	-3.9	-6.0	-7.7	-10.1	-9.5	-9.1	-8.4	-7.8	-7.2	-6.7
Goods and services trade balance	-25.7	-23.0	-23.2	-27.8	-25.7	-26.0	-25.8	-25.3	-24.7	-24.0	-23.2
Export of goods and services	36.5	36.8	36.2	41.6	34.8	36.5	37.4	38.0	38.2	38.3	38.3
Import of goods and services	-62.2	-59.8	-59.3	-69.4	-60.5	-62.4	-63.3	-63.3	-63.0	-62.3	-61.5
Foreign direct investment balance	2.0	1.1	1.4	3.3	1.4	4.2	2.3	2.3	2.4	2.4	2.4
				(Percent change of amounts in U.S.dollars, unless otherwise indicated)							
Exports of goods	-15.7	3.8	17.9	15.0	11.7	8.9	8.2	7.4	6.7	6.1	6.0
Exports of services	-13.9	8.3	17.6	16.6	13.8	7.5	7.2	6.4	6.2	5.6	5.6
Imports of goods	-24.3	0.7	20.4	17.4	19.5	6.8	6.6	5.8	5.5	4.8	4.7
Imports of services	-16.8	-1.5	11.6	15.0	17.8	6.1	5.8	4.9	4.5	3.9	3.8
Remittances and compensation	-28.1	-4.8	13.3	17.3	12.0	8.3	5.9	5.2	4.5	4.9	3.9
Remittances	-26.9	-0.7	7.5	16.0	10.9	7.6	5.4	4.9	3.7	4.9	2.9
Compensation of employees	-29.4	-8.9	19.6	18.6	13.0	9.0	6.4	5.5	5.2	4.9	4.9
Debt service (pct of exports of goods and services)	12.4	11.6	10.5	10.4	12.6	14.2	10.3	9.5	10.6	11.4	9.9

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

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

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

Table 2b. Moldova: Balance of Payments, 2015–2024

(Percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018		2019	2020	2021	2022	2023	2024
				3rd Review	Prelim.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-4.8	-3.9	-6.0	*-7.7*	-10.1	-9.5	-9.1	-8.4	-7.8	-7.2	-6.7
Merchandise trade balance	-25.8	-24.1	-24.7	*-29.7*	-27.0	-27.4	-27.4	-27.0	-26.6	-26.0	-25.4
Exports	25.7	25.5	25.1	*28.9*	24.0	25.3	26.0	26.5	26.7	26.8	26.8
Imports	-51.5	-49.6	-49.9	*-58.6*	-51.0	-52.7	-53.4	-53.5	-53.3	-52.9	-52.2
Services balance	0.1	1.1	1.6	*1.8*	1.2	1.4	1.6	1.7	1.9	2.0	2.2
Exports of services	10.8	11.2	11.0	*12.8*	10.7	11.2	11.4	11.5	11.5	11.5	11.5
Imports of services	-10.8	-10.2	-9.5	*-10.9*	-9.5	-9.8	-9.8	-9.8	-9.7	-9.5	-9.3
Income balance	5.9	5.7	5.8	*6.6*	5.2	5.4	5.5	5.5	5.5	5.4	5.3
Compensation of employees	9.1	7.9	7.9	*9.3*	7.6	8.0	8.1	8.1	8.1	8.0	7.9
Income on direct and portfolio investment	-2.5	-1.7	-1.6	*-2.3*	-1.7	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Income on other investment	-0.7	-0.6	-0.5	*-0.4*	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7
Current transfer balance	15.1	13.5	11.4	*13.4*	10.4	11.0	11.2	11.3	11.4	11.4	11.3
Remittances	8.9	8.4	7.6	*8.8*	7.2	7.5	7.5	7.4	7.3	7.2	7.0
Budget transfers	1.9	1.2	0.9	*1.1*	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Other transfers	4.3	3.8	2.9	*3.5*	2.5	2.7	2.8	3.0	3.2	3.3	3.4
Capital and financial account balance	1.2	9.8	9.9	*8.0*	11.7	9.0	8.5	8.6	8.5	8.5	8.2
Capital account balance	-0.4	-0.4	-0.4	*-0.5*	-0.5	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Financial account balance	1.7	10.2	10.3	*8.5*	12.2	9.5	9.0	9.1	9.0	9.0	8.7
Foreign direct investment balance	2.0	1.1	1.4	*3.3*	1.4	4.2	2.3	2.3	2.4	2.4	2.4
Portfolio investment and derivatives	0.1	0.0	0.0	*0.0*	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other investment balance	-0.4	9.1	8.9	*5.2*	10.9	5.3	6.7	6.7	6.6	6.5	6.2
Loans	0.6	0.2	0.6	*2.1*	0.9	0.3	1.6	1.7	1.5	1.6	1.5
General government, net	1.2	0.6	0.2	*1.9*	0.1	0.5	1.5	1.5	1.3	1.4	1.4
Private sector, net	-0.5	-0.4	0.4	*0.2*	0.8	-0.2	0.0	0.2	0.2	0.2	0.1
Other capital flows	-1.0	8.9	8.3	*3.0*	10.0	5.0	5.1	5.1	5.0	4.9	4.7
Errors and omissions	-0.7	-0.9	0.7	*0.0*	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.3	5.0	4.6	*0.2*	2.2	-0.6	-0.6	0.2	0.7	1.3	1.5
Financing	4.3	-5.0	-4.6	*-0.2*	-2.2	0.6	0.6	-0.2	-0.7	-1.3	-1.5
Gross international reserves (increase: "-")	4.0	-6.6	-5.5	*-1.6*	-2.1	-0.3	-0.2	-0.2	-0.4	-1.2	-1.3
Use of Fund credit, net	-0.5	-0.5	-0.5	*-0.2*	-0.5	-0.3	-0.4	-0.4	-0.2	-0.1	-0.2
Monetary authorities	-0.5	-0.5	-0.5	*-0.2*	-0.4	-0.3	-0.4	-0.4	-0.2	-0.1	-0.1
Purchases	0.0	0.1	0.2	*0.4*	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Repurchases	-0.5	0.0	-0.6	*-0.7*	-0.5	-0.5	-0.4	-0.4	-0.2	-0.1	-0.1
General government	-0.1	0.0	0.0	*0.0*	-0.1	0.0	-0.1	0.0	-0.1	-0.1	-0.1
Purchases	0.0	0.0	0.3	*0.3*	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Repurchases	-0.1	0.0	-0.3	*-0.3*	-0.2	-0.2	-0.2	0.0	-0.1	-0.1	-0.1
Exceptional financing	0.8	4.5	-0.2	*0.0*	0.1	0.1	0.3	0.1	0.0	0.0	0.0
Other donors	...	0.0	1.6	*1.6*	0.3	1.1	0.9	0.3	0.0	0.0	0.0
European Commission	...	0.0	0.4	*1.3*	0.1	1.1	0.6	0.1	0.0	0.0	0.0
World Bank	...	0.0	0.0	*0.3*	0.3	0.0	0.3	0.2	0.0	0.0	0.0
Romania	...	0.0	1.1	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Gross official reserves (millions of U.S. dollars) 1/	1,757	2,206	2,803	2,947	2,995	3,025	3,046	3,068	3,124	3,293	3,499
Months of imports of good and services	4.4	4.6	4.9	4.9	4.9	4.7	4.5	4.3	4.1	4.2	4.2
Percent of short term debt and CA deficit	93.7	101.1	88.6	69.9	83.4	85.8	82.3	77.2	73.8	75.4	74.8
Pct of short-term debt at remaining maturity	119.5	140.4	137.1	89.0	120.8	119.5	111.6	102.2	95.4	96.0	93.2
Pct of the IMF composite measure (floating) 2/	134.1	162.4	176.3	148.3	171.0	165.2	155.9	147.2	141.0	140.9	140.5
Current account balance	-4.8	-3.9	-6.0	-7.7	-10.1	-9.5	-9.1	-8.4	-7.8	-7.2	-6.7
Goods and services trade balance	-25.7	-23.0	-23.2	-27.8	-25.7	-26.0	-25.8	-25.3	-24.7	-24.0	-23.2
Export of goods and services	36.5	36.8	36.2	41.6	34.8	36.5	37.4	38.0	38.2	38.3	38.3
Import of goods and services	-62.2	-59.8	-59.3	-69.4	-60.5	-62.4	-63.3	-63.3	-63.0	-62.3	-61.5
Foreign direct investment balance	2.0	1.1	1.4	3.3	1.4	4.2	2.3	2.3	2.4	2.4	2.4
				(Percent change of amounts in U.S.dollars, unless otherwise indicated)							
Exports of goods	-15.7	3.8	17.9	*15.0*	11.7	8.9	8.2	7.4	6.7	6.1	6.0
Exports of services	-13.9	8.3	17.6	*16.6*	13.8	7.5	7.2	6.4	6.2	5.6	5.6
Imports of goods	-24.3	0.7	20.4	*17.4*	19.5	6.8	6.6	5.8	5.5	4.8	4.7
Imports of services	-16.8	-1.5	11.6	*15.0*	17.8	6.1	5.8	4.9	4.5	3.9	3.8
Remittances and compensation	-28.1	-4.8	13.3	*17.3*	12.0	8.3	5.9	5.2	4.5	4.9	3.9
Remittances	-26.9	-0.7	7.5	*16.0*	10.9	7.6	5.4	4.9	3.7	4.9	2.9
Compensation of employees	-29.4	-8.9	19.6	*18.6*	13.0	9.0	6.4	5.5	5.2	4.9	4.9
Debt service (pct of exports of goods and services)	12.4	11.6	10.5	*10.4*	12.6	14.2	10.3	9.5	10.6	11.4	9.9

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

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

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

Table 3a. Moldova: General Government Budget, 2015–2024
(Millions of Moldovan lei, unless otherwise indicated)

	2015	2016	2017	2018		2019	2020	2021	2022	2023	2024
				3rd Review	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	43,670	45,947	53,379	57,963	57,996	63,538	69,074	74,141	80,260	87,898	95,678
Revenues	41,764	44,574	52,371	56,037	57,609	61,720	67,257	72,819	78,829	86,323	93,961
Tax revenues	38,758	42,502	49,990	53,538	54,816	59,054	64,531	70,038	75,965	82,601	89,918
Personal income	2,745	3,182	3,649	3,951	3,982	3,852	4,184	4,517	4,885	5,325	5,803
Corporate income	2,808	3,363	4,074	4,551	5,357	5,430	6,007	6,551	7,140	7,782	8,481
Property tax	359	404	546	560	564	569	581	601	621	677	738
VAT	13,714	14,564	16,870	17,968	18,616	20,706	22,829	24,871	27,034	29,269	31,927
Excises	3,844	4,546	5,950	6,165	5,683	6,296	6,885	7,518	8,186	8,948	9,650
Foreign trade	1,328	1,452	1,591	1,696	1,666	1,862	2,071	2,260	2,446	2,642	2,847
Other	1,835	1,722	1,796	1,817	1,793	1,899	1,900	2,071	2,257	2,460	2,681
Social Fund contributions	9,269	10,031	11,866	12,866	13,038	13,584	14,744	15,905	17,192	18,738	20,422
Health Fund contributions	2,855	3,240	3,648	3,964	4,118	4,859	5,330	5,744	6,203	6,760	7,368
Non-tax revenues	3,006	2,072	2,381	2,499	2,793	2,666	2,726	2,781	2,864	3,722	4,044
NBM profit transfers	889	0	0	0	0	0	0	0	0	0	0
Grants	1,906	1,373	1,009	1,926	387	1,818	1,818	1,322	1,431	1,575	1,717
Budget support	0	953	741	1,285	0	1,369	872	241	0	0	0
Project	1,906	420	268	641	387	450	946	1,081	1,431	1,575	1,717
Expenditure and net lending	46,502	48,774	54,823	63,644	60,005	69,757	75,989	81,287	86,289	94,357	102,300
Current expenditure	41,059	43,773	49,091	55,558	53,597	61,655	66,562	72,150	77,017	84,408	91,463
Wages	10,530	10,967	12,506	14,030	13,733	15,983	17,489	19,061	20,775	22,643	24,678
Goods and services	10,151	9,498	10,587	11,645	11,209	12,852	14,047	15,310	16,686	18,186	19,821
Interest payments	1,099	1,812	1,959	1,680	1,526	1,837	2,242	2,302	2,533	2,849	3,052
Domestic	832	1,477	1,581	1,274	1,129	1,347	1,656	1,619	1,763	1,981	2,066
Foreign	268	334	378	406	397	490	585	683	770	868	986
Transfers	16,903	18,198	20,383	22,091	23,411	25,731	28,154	30,191	32,905	35,863	39,087
Transfers to economy 1/	2,126	1,799	2,417	2,620	3,462	3,182	3,482	3,794	4,136	4,507	4,913
Transfers to households	14,777	16,399	17,966	19,471	19,949	22,549	24,673	26,396	28,769	31,356	34,175
Other current expenditure	2,376	3,299	3,655	6,112	3,718	5,252	4,630	5,286	4,118	4,867	4,824
Capital expenditure	5,443	5,000	5,733	8,087	6,407	8,102	9,427	9,137	9,272	9,950	10,837
Of which: SOEs onlending projects		340	299	618	396	299	1,490	1,154	1,773	1,933	2,106
One-off revenue and expenditure items 2/	0	-13,341	0	0	0	0	0	0	0	0	0
Augmented overall balance (incl. one-off items) 3/	-2,832	-16,168	-1,444	-5,681	-2,009	-6,219	-6,914	-7,146	-6,029	-6,459	-6,622
Augmented overall balance (excl. one-off items) 3/	-2,832	-2,827	-1,444	-5,681	-2,009	-6,219	-6,914	-7,146	-6,029	-6,459	-6,622
Augmented primary balance (excl. one-off items) 3/	-1,816	-1,131	508	-4,041	-689	-4,595	-4,894	-5,074	-3,734	-3,858	-3,826
Financing (excl. one-off items)	2,832	103	-1,033	3,904	1,298	4,887	5,503	6,574	6,029	6,459	6,622
Budget financing	260	-1,433	-1,956	-450	-240	2,527	-116	-107	-408	-262	-390
Central government	133	-453	-1,471	32	422	2,327	-116	-107	-408	-262	-390
Net domestic	17	-127	-581	1,601	1,094	3,310	3,592	3,497	3,423	3,403	3,719
Net foreign (excl. project loans)	-437	-761	-1,279	-2,208	-1,766	-2,018	-1,821	-2,113	-2,107	-1,774	-2,036
Privatization	35	279	153	157	140	182	150	150	150	150	150
Others	518	156	236	482	954	852	-2,037	-1,641	-1,874	-2,041	-2,223
Local governments	0	-794	-285	-277	-136	200	0	0	0	0	0
Privatization	19	18	6	5	1	2	0	0	0	0	0
Social Fund	37	-96	-204	-204	-364	0	0	0	0	0	0
Health Fund	90	-91	4	0	-163	0	0	0	0	0	0
Net project loans	2,333	1,536	924	4,354	1,538	2,361	5,618	6,681	6,436	6,721	7,012
Of which: Onlending (through commercial banks)	0	-40	-280	-611	-105	-555	-547	-487	-509	-531	-555
Financing gap	0	2,724	2,477	1,776	711	1,332	1,412	572	0	0	0
World Bank	...	889	0	505	490	0	739	572	0	0	0
IMF	0	480	479	465	221	494	222	0	0	0	0
Others	...	1,355	1,998	807	0	837	451	0	0	0	0
Financing for one-off items											
Government securities issued	0	13,341	0	0	0	0	0	0	0	0	0
						(Millions of Moldovan lei)					
Memorandum items:											
Public and publicly guaranteed debt	57,566	59,463	58,463	60,874	58,189	65,242	73,230	80,982	88,048	95,848	103,879
Domestic public debt 4/	23,431	23,758	24,272	23,325	24,906	28,879	30,558	33,361	35,960	38,210	40,482
Domestic expenditure arrears	744	101	40	0	55	0	0	0	0	0	0
External debt 5/	33,392	35,604	34,151	37,549	33,228	36,364	42,672	47,621	52,087	57,638	63,397

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

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

2/ Includes banking sector resolution costs in 2016.

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

4/ Starting with combined 4th and 5th review, includes domestic guarantees and domestic debt of SOEs.

5/ Includes central bank liabilities to the IMF.

Table 3b. Moldova: General Government Budget, 2015–2024
(Percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018		2019	2020	2021	2022	2023	2024
				3rd Review	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	30.0	28.6	29.8	*35.6*	30.5	30.7	30.5	30.0	29.8	29.9	29.9
Revenues	28.7	27.7	29.3	*34.4*	30.3	29.8	29.7	29.5	29.3	29.4	29.4
Tax revenues	26.6	26.4	27.9	*32.9*	28.8	28.5	28.4	28.3	28.2	28.1	28.1
Personal income	1.9	2.0	2.0	*2.4*	2.1	1.9	1.8	1.8	1.8	1.8	1.8
Corporate income	1.9	2.1	2.3	*2.8*	2.8	2.6	2.6	2.6	2.6	2.6	2.6
Property tax	0.2	0.3	0.3	*0.3*	0.3	0.3	0.3	0.2	0.2	0.2	0.2
VAT	9.4	9.1	9.4	*11.0*	9.8	10.0	10.1	10.1	10.0	10.0	10.0
Excises	2.6	2.8	3.3	*3.8*	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Foreign trade	0.9	0.9	0.9	*1.0*	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Other	1.3	1.1	1.0	*1.1*	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Social Fund contributions	6.4	6.2	6.6	*7.9*	6.9	6.6	6.5	6.4	6.4	6.4	6.4
Health Fund contributions	2.0	2.0	2.0	*2.4*	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Non-tax revenues	2.1	1.3	1.3	*1.5*	1.5	1.3	1.2	1.1	1.1	1.3	1.3
NBM profit transfers	0.6	0.0	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.3	0.9	0.6	*1.2*	0.2	0.9	0.8	0.5	0.5	0.5	0.5
Budget support	0.0	0.6	0.4	*0.8*	0.0	0.7	0.4	0.1	0.0	0.0	0.0
Project	1.3	0.3	0.1	*0.4*	0.2	0.2	0.4	0.4	0.5	0.5	0.5
Expenditure and net lending	31.9	30.3	30.6	*39.1*	31.6	33.7	33.5	32.9	32.0	32.1	32.0
Current expenditure	28.2	27.2	27.4	*34.1*	28.2	29.7	29.3	29.2	28.6	28.7	28.6
Wages	7.2	6.8	7.0	*8.6*	7.2	7.7	7.7	7.7	7.7	7.7	7.7
Goods and services	7.0	5.9	5.9	*7.1*	5.9	6.2	6.2	6.2	6.2	6.2	6.2
Interest payments	0.8	1.1	1.1	*1.0*	0.8	0.9	1.0	0.9	0.9	1.0	1.0
Domestic	0.6	0.9	0.9	*0.8*	0.6	0.6	0.7	0.7	0.7	0.7	0.6
Foreign	0.2	0.2	0.2	*0.2*	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Transfers	11.6	11.3	11.4	*13.6*	12.3	12.4	12.4	12.2	12.2	12.2	12.2
Transfers to economy 1/	1.5	1.1	1.4	*1.6*	1.8	1.5	1.5	1.5	1.5	1.5	1.5
Transfers to households	10.1	10.2	10.0	*11.9*	10.5	10.9	10.9	10.7	10.7	10.7	10.7
Other current expenditure	1.6	2.1	2.0	*3.8*	2.0	2.5	2.0	2.1	1.5	1.7	1.5
Capital expenditure	3.7	3.1	3.2	*5.0*	3.4	3.9	4.2	3.7	3.4	3.4	3.4
Of which: SOEs onlending projects		0.2	0.2	*0.4*	0.2	0.1	0.7	0.5	0.7	0.7	0.7
One-off revenue and expenditure items 2/	0.0	-8.3	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Augmented overall balance (incl. one-off items) 3/	-1.9	-10.1	-0.8	*-3.5*	-1.1	-3.0	-3.0	-2.9	-2.2	-2.2	-2.1
Augmented overall balance (excl. one-off items) 3/	-1.9	-1.8	-0.8	*-3.5*	-1.1	-3.0	-3.0	-2.9	-2.2	-2.2	-2.1
Augmented primary balance (excl. one-off items) 3/	-1.2	-0.7	0.3	*-2.5*	-0.4	-2.2	-2.2	-2.1	-1.4	-1.3	-1.2
Financing (excl. one-off items)	1.9	0.1	-0.6	*2.4*	0.7	2.4	2.4	2.7	2.2	2.2	2.1
Budget financing	0.2	-0.9	-1.1	*-0.3*	-0.1	1.2	-0.1	0.0	-0.2	-0.1	-0.1
Central government	0.1	-0.3	-0.8	*0.0*	0.2	1.1	-0.1	0.0	-0.2	-0.1	-0.1
Net domestic	0.0	-0.1	-0.3	*1.0*	0.6	1.6	1.6	1.4	1.3	1.2	1.2
Net foreign (excl. project loans)	-0.3	-0.5	-0.7	*-1.4*	-0.9	-1.0	-0.8	-0.9	-0.8	-0.6	-0.6
Privatization	0.0	0.2	0.1	*0.1*	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Others	0.4	0.1	0.1	*0.3*	0.5	0.4	-0.9	-0.7	-0.7	-0.7	-0.7
Local governments	0.0	-0.5	-0.2	*-0.2*	-0.1	0.1	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
Social Fund	0.0	-0.1	-0.1	*-0.1*	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Health Fund	0.1	-0.1	0.0	*0.0*	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net project loans	1.6	1.0	0.5	*2.7*	0.8	1.1	2.5	2.7	2.4	2.3	2.2
Of which: Onlending (through commercial banks)	0.0	0.0	-0.2	*-0.4*	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Financing gap	0.0	1.7	1.4	*1.1*	0.4	0.6	0.6	0.2	0.0	0.0	0.0
World Bank		0.6	0.0	*0.3*	0.3	0.0	0.3	0.2	0.0	0.0	0.0
IMF	0.0	0.3	0.3	*0.3*	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Others		0.8	1.1	*0.5*	0.0	0.4	0.2	0.0	0.0	0.0	0.0
Financing for one-off items											
Government securities issued	0.0	8.3	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	39.5	37.0	32.7	*37.4*	30.6	31.5	32.3	32.8	32.7	32.6	32.5
Domestic public debt 4/	16.1	14.8	13.6	*14.3*	13.1	13.9	13.5	13.5	13.3	13.0	12.6
Domestic expenditure arrears	0.5	0.1	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt 5/	22.9	22.1	19.1	*23.0*	17.5	17.5	18.8	19.3	19.3	19.6	19.8

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

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

2/ Includes banking sector resolution costs in 2016.

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

4/ Starting with combined 4th and 5th review, includes domestic guarantees and domestic debt of SOEs.

5/ Includes central bank liabilities to the IMF.

Table 4. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2012–2020

(Millions of Moldovan lei, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
							Prelim.	Proj.	Proj.
National Bank of Moldova									
Net foreign assets 1/	24,690	30,969	27,540	27,826	37,695	42,153	45,700	48,997	52,871
NFA (convertible)	24,693	31,006	27,539	27,850	38,041	43,045	46,855	50,086	54,046
Gross reserves	30,339	36,829	33,676	34,536	44,078	47,936	51,345	54,456	57,670
Reserve liabilities	5,647	5,823	6,137	6,686	6,037	4,891	4,490	4,370	3,624
Net domestic assets	-4,159	-4,891	182	1,863	-4,419	-5,156	-2,143	271	3,176
Net claims on general government	192	476	-270	-1,163	10,397	7,964	7,956	9,313	9,073
Credit to banks	-3,451	-2,340	7,427	13,399	-5,915	-9,217	-6,299	-3,524	520
Other items (net)	-900	-3,027	-6,975	-10,373	-8,901	-3,903	-3,800	-5,517	-6,416
Reserve money	20,531	26,078	27,722	29,689	33,276	36,997	43,557	49,268	56,047
Currency in circulation	13,241	17,550	17,500	15,509	17,274	19,053	21,077	25,770	29,316
Banks' reserves	7,285	8,515	10,222	13,335	15,007	17,240	22,315	23,498	26,732
Required reserves	5,202	6,346	6,290	11,521	13,494	16,266	18,656	21,244	24,150
Other reserves	2,082	2,169	3,932	1,814	1,513	974	3,659	2,254	2,582
Monetary survey									
Net foreign assets	23,141	32,072	43,152	49,300	61,509	67,877	71,780	82,921	91,056
NFA (convertible)	23,427	31,731	37,497	43,317	55,633	61,871	65,793	76,443	83,686
Of which: commercial banks	-1,266	725	9,958	15,466	17,593	18,826	18,938	26,356	29,640
Foreign assets of commercial banks	4,778	10,496	19,005	22,205	22,274	23,237	22,641	30,436	33,993
Foreign liabilities of commercial banks	-6,044	-9,770	-9,047	-6,739	-4,681	-4,411	-3,703	-4,080	-4,354
NFA (non-convertible)	-286	340	5,655	5,984	5,876	6,006	5,987	6,479	7,370
Net domestic assets	26,372	30,560	22,821	14,705	8,999	9,233	11,378	13,585	18,729
Net claims on general government	1,004	1,478	821	-99	12,612	11,455	12,353	16,671	19,316
Credit to economy	35,948	42,633	41,273	42,721	39,455	38,101	39,656	41,407	43,906
Moldovan lei	20,624	25,289	25,173	24,219	21,656	21,657	22,779	23,724	25,156
Foreign exchange	15,324	17,343	16,100	18,502	17,798	16,445	16,878	17,683	18,750
in U.S. dollars	1,270	1,328	1,031	941	891	962	985	982	990
Other items (net)	-10,580	-13,551	-19,273	-27,917	-43,068	-40,323	-40,631	-44,494	-44,494
Broad money (M3)	49,513	62,631	65,973	64,005	70,508	77,110	83,159	96,506	109,784
Broad money (M2: excluding FCD)	34,915	45,117	43,220	39,260	46,418	53,043	58,334	67,291	76,483
Currency in circulation	13,241	17,550	17,509	15,509	17,274	19,053	21,077	25,770	29,316
Total deposits	36,272	45,081	48,464	48,497	53,245	58,003	62,081	70,736	80,469
Domestic currency deposits	21,674	27,567	25,711	23,751	29,155	33,937	37,257	41,521	47,168
Foreign currency deposits (FCD)	14,599	17,514	22,753	24,745	24,090	24,067	24,824	29,215	33,301
in U.S. dollars	1,210	1,341	1,457	1,259	1,206	1,407	1,448	1,623	1,759
Memorandum items:									
Reserve money growth (percent change; annual)	19.7	27.0	6.3	7.1	12.1	11.2	17.7	13.1	13.8
Broad money growth (percent change; annual)	20.8	26.5	5.3	-3.0	10.2	9.4	7.8	16.1	13.8
Credit to economy (percent change, annual)	16.1	18.6	-3.2	3.5	-7.6	-3.4	4.1	4.4	6.0
in lei	20.1	22.6	-0.5	-3.8	-10.6	0.0	5.2	4.1	6.0
in foreign exchange ($ equivalent)	8.1	4.6	-22.4	-8.7	-5.4	8.0	2.4	-0.2	0.8
Gross international reserves (millions of U.S. dollars	2,515	2,821	2,157	1,757	2,206	2,803	2,995	3,025	3,046
Percent of domestic-currency broad money	87	82	78	88	95	90	88	81	75
Net international reserves (millions of U.S. dollars)	2,047	2,375	1,764	1,417	1,904	2,517	2,733	2,783	2,854
Broad money multiplier	2.4	2.4	2.4	2.2	2.1	2.1	1.9	2.0	2.0

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

1/ Monetary accounts are presented at actual exchange rates, unless otherwise indicated.

Table 5. Moldova: Indicators of Fund Credit, 2011–2024 1/

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
											Proj.			
Fund obligations based on existing credit (millions of SDRs)														
Principal	3.9	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	23.2	12.9	14.5
Charges and interest	0.8	1.2	1.6	1.6	1.5	1.4	1.9	2.4	3.8	3.0	2.6	2.3	2.0	1.8
Fund obligations based on existing and prospective credit														
Principal	3.9	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	23.2	12.9	18.5
Charges and interest	0.8	1.2	1.6	1.6	1.5	1.4	1.9	2.4	3.9	3.7	3.3	2.9	2.7	2.5
Total obligations based on existing and prospective credit														
Millions of SDRs	4.7	11.7	15.8	20.9	30.6	53.9	65.4	64.9	63.0	57.1	38.6	26.2	15.6	20.9
Millions of U.S. dollars	7.4	18.0	24.0	31.7	42.8	75.0	90.7	91.9	89.1	80.8	54.6	37.0	22.0	29.6
Percent of exports of goods and services	0.2	0.6	0.7	1.0	1.5	2.5	2.6	2.3	2.1	1.8	1.1	0.7	0.4	0.5
Percent of debt service 2/	8.5	19.7	23.6	30.9	46.5	60.3	49.3	38.9	39.6	36.3	26.6	21.2	15.6	17.7
Percent of GDP	0.1	0.2	0.3	0.3	0.6	0.9	0.9	0.8	0.8	0.7	0.4	0.3	0.2	0.2
Percent of gross international reserves	0.4	0.7	0.8	1.5	2.4	3.4	3.2	3.1	2.9	2.7	1.8	1.2	0.7	0.8
Percent of quota	3.8	9.5	12.8	17.0	24.8	31.3	37.9	37.6	36.5	33.1	22.4	15.2	9.0	12.1
Outstanding Fund credit based on existing and prospective credit														
Millions of SDRs	308.7	398.2	384.0	364.7	335.6	309.1	277.0	262.6	227.5	174.2	138.9	115.7	102.8	84.3
Millions of U.S. dollars	487.3	609.9	583.5	553.9	469.6	429.6	384.0	371.7	322.1	246.6	196.6	163.7	145.5	119.4
Percent of exports of goods and services	15.5	19.5	16.9	16.6	16.6	14.5	11.0	9.5	7.6	5.4	4.0	3.1	2.6	2.0
Percent of debt service 2/	556.7	667.0	575.0	540.1	509.3	345.4	208.9	157.3	143.0	110.8	95.9	93.6	102.9	71.4
Percent of GDP	5.8	7.0	6.1	5.8	6.1	5.3	4.0	3.3	2.8	2.0	1.5	1.2	1.0	0.8
Percent of gross international reserves	24.8	24.2	20.7	25.7	26.7	19.5	13.7	12.4	10.6	8.1	6.4	5.2	4.4	3.4
Percent of quota	250.6	323.2	311.7	296.1	272.4	179.2	160.6	152.2	131.9	101.0	80.5	67.1	59.6	48.9
Net use of Fund credit (millions of SDRs)	96.1	89.5	-14.2	-19.3	-29.1	-26.5	-32.1	-38.5	-25.4	-39.0	-35.3	-23.2	-12.9	-18.5
Disbursements and purchases 3/	100.0	100.0	0.0	0.0	0.0	26.0	31.4	24.0	33.6	14.4	0.0	0.0	0.0	0.0
Repayments and repurchases	3.9	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	23.2	12.9	18.5
Memorandum items:														
Exports of goods and services (millions of U.S. dollars)	3,143	3,135	3,462	3,328	2,823	2,969	3,498	3,930	4,262	4,599	4,926	5,249	5,562	5,889
Debt service (millions of U.S. dollars) 2/	87.5	91.4	101.5	102.6	92.2	124.4	183.9	236.3	225.3	222.5	205.1	174.9	141.5	167.3
Nominal GDP (millions of U.S. dollars) 2/	8,417	8,708	9,496	9,510	7,726	8,072	9,670	11,309	11,688	12,281	12,975	13,725	14,512	15,376
Gross International Reserves (millions of U.S. dollars)	1,965	2,515	2,821	2,157	1,757	2,206	2,803	2,995	3,025	3,046	3,068	3,124	3,293	3,499
Average exchange rate: SDR per U.S. dollars	0.63	0.65	0.66	0.66	0.71	0.72	0.72	0.71	0.71	0.71	0.71	0.71	0.71	0.71
Quota (millions of SDRs)	123.2	123.2	123.2	123.2	123.2	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5

Sources: IMF staff estimates and projections.

1/ Assume repurchases are made on obligations schedule.

2/ Total debt service includes IMF repurchases and repayments.

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

Table 6. Moldova: External Financing Requirements and Sources, 2016–2020

(Millions of U.S. dollars)

	2016	2017	2018	2019	2020
				Proj.	
Gross financing requirement [1]	642	887	1540	1674	1539
of which: fiscal financing requirements	58	75	115	120	133
Identified financing sources	978	1224	1714	1533	1427
Change in gross reserves (increase = -)	-531	-531	-236	-30	-20
Financing gap	195	195	62	171	132
Official Financing	195	195	62	171	132
Identified program financing	160	151	29	124	112
European Commission	47	43	0	124	72
World Bank	45	0	29	0	40
Romania	68	108	0	0	0
Fund Program	35	44	33	47	20
of which: budget support	24	26	13	28	12

Sources: Moldovan authorities and IMF staff projections.

1 Current account deficit plus amortization on external debt (private and public and publicly-guaranteed).

Table 7. Moldova: Financial Soundness Indicators, 2012–18

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

	2012	2013	2014	2015	2016				2017				2018			
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Size																
Number of banks	14	14	14	11	11	11	11	11	11	11	11	11	11	11	11	11
Total bank assets (billions of lei)	58.3	76.2	97.5	69.1	69.7	70.6	72.7	72.9	74.0	75.0	77.5	79.5	81.0	80.1	82.3	83.2
Total bank assets (percent of GDP)	66.1	76.3	87.0	56.7	51.8	52.5	54.1	54.2	49.9	50.6	52.3	52.90	42.62	42.17	43.31	43.76
Capital adequacy																
Capital adequacy ratio	24.8	23.4	13.2	26.2	27.8	27.0	28.7	30.1	29.7	28.9	30.7	31.0	33.2	33.8	27.9	26.52
Liquidity																
Liquid assets (billions of lei)	19.2	25.7	21.1	28.7	29.5	31.8	34.3	35.9	37.2	38.5	41.3	44.1	46.0	44.7	44.9	45.4
Total deposits (billions of lei)	39.8	51.9	65.5	50.2	50.1	52.2	54.3	54.8	55.6	56.2	58.2	59.9	60.6	60.9	61.9	63.5
Liquidity ratio (liquid assets in percent of total deposits)	48.2	49.6	32.2	57.2	58.9	60.8	63.3	65.5	67.0	68.5	71.0	73.7	75.9	73.4	72.5	71.6
Liquid assets in total assets	32.9	33.8	21.6	41.5	42.3	45.0	47.2	49.2	50.3	51.3	53.2	55.5	56.8	55.9	54.6	54.6
Asset quality																
Gross loans (billions of lei)	35.0	42.2	40.8	38.2	37.9	37.2	36.3	34.8	34.2	34.2	33.8	33.5	32.4	33.1	34.6	35.5
Nonperforming loans (billions of lei)	5.1	4.9	4.8	3.8	4.2	6.0	5.7	5.7	5.5	6.0	5.9	6.2	5.3	4.9	4.7	4.4
Nonperforming loans as a share of total loans	14.5	11.6	11.7	9.9	11.1	16.1	15.8	16.4	16.2	17.6	17.4	18.4	16.2	14.7	13.5	12.5
Provisions to non-performing loans	73.5	83.6	88.4	85.5	86.4	73.6	78.7	81.8	84.9	83.8	83.6	80.6	84.1	85.2	87.1	86.6
Profitability																
Return on equity	5.6	9.4	6.1	12.8	15.7	14.2	15.0	12.0	15.3	14.6	14.3	11.1	15.2	12.7	12.7	11.6
Return on assets	1.1	1.6	0.9	2.1	2.6	2.3	2.5	2.0	2.6	2.4	2.4	1.8	2.4	2.1	2.1	1.9
Foreign currency assets and liabilities																
Foreign currency denominated liabilities in total liabilities	48.9	51.0	49.5	52.8	51.7	49.3	47.4	46.8	46.2	44.9	46.4	44.1	44.4	42.2	42.4	42.1
Foreign currency denominated assets in total assests	40.9	44.7	47.0	42.5	41.6	41.5	39.6	38.9	38.0	37.5	38.5	36.8	37.1	34.9	35.3	34.7
Foreign currency deposits in total deposits	40.2	44.7	52.1	52.5	51.8	48.8	47.0	46.5	45.7	44.5	46.0	42.8	42.7	41.3	41.0	41.1
Foreign currency denominated loans in total loans	42.6	40.4	39.8	42.1	43.4	43.5	44.6	44.3	43.3	41.6	41.4	41.7	40.3	38.2	39.1	38.5

Source: National Bank of Moldova.

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

	Available on or after	Amount of Purchase (millions of SDRs) Total	ECF	EFF	Percent of Quota ECF	EFF	Conditions
1.	November 7, 2016	26.0	8.7	17.3	5	10	Board approval of the Arrangement
2.	March 20, 2017	15.7	5.2	10.5	3	6	Observance of end-December 2016 performance criteria and completion of first review
3.	September 20, 2017	15.7	5.2	10.5	3	6	Observance of end-June 2017 performance criteria and completion of second review
4.	March 20, 2018	24.0	8.0	16.0	5	9	Observance of end-December 2017 performance criteria and completion of third review
5.	September 20, 2018	16.8	5.6	11.2	3	6	Observance of end-June 2018 performance criteria and completion of fourth review
6.	March 20, 2019	16.8	5.6	11.2	3	6	Observance of end-December 2018 performance criteria and completion of fifth review
7.	January 20, 2020	14.4	4.8	9.6	3	6	Observance of end-December 2019 performance criteria and completion of sixth review
	Total	129.4	43.1	86.3	25	50	

Source: IMF staff estimates.

1/ Moldova's quota is SDR 172.5 million.

Appendix I. Letter of Intent

Chişinău

September 3, 2019

Mr. David Lipton
Acting Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431 USA

Dear Mr. Lipton:

1. Moldova's new government is committed to restore the functioning of democratic institutions and return the country on the path of sustained growth. Our quick and decisive actions to reverse policy slippages that led to the suspension of international support in 2018 have already improved the outlook for domestic stabilization and international financial support. We are now resuming an ambitious reform program, supported by the Fund's Extended Fund Facility and Extended Credit Facility Arrangements. We met all quantitative performance criteria and 2 out of 4 structural benchmarks. We expect continued solid economic growth and financial stability, anchored by prudent macroeconomic policies and accelerated efforts to improve governance. This will help foster inclusive economic development, job creation, and poverty reduction. Despite a generally favorable economic outlook, challenges remain.

2. We commit to completing the clean-up of the financial sector, maintaining sustainable fiscal policy while protecting priority spending, and strengthening our institutional frameworks:

- In the **financial sector**, we will conclude the transfer of control of the last of the three systemic banks to a fit and proper investor by end-2019, complete the removal of unfit shareholders in domestic non-systemic banks, and strengthen our AML/CFT regime. We will mitigate risks arising from the non-bank financial sector.

- Our **fiscal policy** will focus on mobilizing domestic resources, improving spending efficiency, and unlocking donor financing. Our priorities include broadening the tax base, strengthening tax administration and tax compliance, enhancing public investment management, and improving allocation of social spending.

- We will strengthen the NBM's **monetary policy framework**, guided by its inflation targeting regime and underpinned by exchange rate flexibility. We will reinforce the NBM's emergency liquidity assistance framework. We will refrain from any initiative that would undermine the NBM's institutional and policy independence.

- We will accelerate our efforts to **recover assets** stolen in the 2014 bank fraud. We will engage international partners to investigate and prosecute perpetrators. We will also engage independent and reputable asset recovery experts to recover stolen assets.

- In the **energy sector**, we will pursue a predictable and transparent tariff policy based on sound methodologies and enforced by an independent and professionally qualified regulator.

3. On the basis of our performance to date, fulfillment of strong prior actions, and policy commitments outlined in the attached Supplementary MEFP, we request (i) the completion of the combined fourth and fifth reviews under the Extended Credit Facility and Extended Fund Facility arrangements; (ii) completion of the inflation consultation; (iii) the extension of the arrangements to March 20, 2020; (iv) the addition of a sixth program review based on end-December 2019 quantitative performance criteria (Table 1) and new structural benchmarks (Table 2); and (v) the rephasing of the outstanding program purchases with SDR 33.6 million and SDR 14.4 million to be disbursed at the time of the combined fourth/fifth and the sixth reviews, respectively.

4. We remain strongly committed to take additional measures that may become appropriate for the successful implementation of the program. We will consult with the Fund in advance on the adoption of these measures and on any revisions to the policies contained in the attached SMEFP. We will provide information requested by the Fund to assess implementation of the program. Maintaining our commitment to the policy of transparency, we consent to the publication of this letter, the attached SMEFP, and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

/s/

Maia Sandu
Prime Minister, Government
of the Republic of Moldova

/s/ /s/

Vadim Brînzan
Minister of Economy
and Infrastructure

Natalia Gavriliţa
Minister of Finance

/s/

Octavian Armaşu
Governor
National Bank of Moldova

Attachments: Supplementary Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Supplementary Memorandum of Economic and Financial Policies

I. RECENT DEVELOPMENTS AND OUTLOOK

1. **We are taking decisive steps to bring Moldova back on track for sustained economic development and stability.** The political crisis that emerged in the aftermath of the parliamentary elections has subsided, as the transition of power to the new government has been peacefully achieved. We are taking urgent steps to correct policy slippages, strengthen our democratic institutions, and restore international support.

2. **Economic growth remained stable.** Real GDP grew by 4 percent in 2018 in the context of ongoing demand recovery and a positive external environment. Higher real incomes and a sharp pick-up in investment supported strong domestic demand growth. The external trade deficit continued to widen, with imports significantly outpacing growth of exports. Despite continued appreciation of the leu through 2018, robust financial account inflows facilitated accumulation of international reserves. CPI inflation averaged 3.1 percent in 2018.

3. **The 2018 fiscal balance overperformed program targets with a large margin.** The augmented overall deficit undershot program target by 2 percent of GDP, reflecting stronger-than-projected revenues and significant under-execution of capital spending. The undershooting of the budget deficit and non-disbursement of external loans led to a decline in the stock of public debt to about 30 percent of GDP.

4. **We expect an improved medium-term growth outlook**. The prospects for external financial support have improved due to our sustained policy efforts. Strong macroeconomic policies, including prudent management of public finances, are expected to underpin growth, which is forecast at 3.5 percent in 2019 and around 4 percent thereafter. CPI inflation is expected to temporarily overshoot the upper bound of the NBM's target variation interval towards end-2019 and to return to the NBM's 5 percent target by mid-2020.

II. POLICY FRAMEWORK

A. Financial Sector Policies

Our overarching goal is to safeguard the hard-earned macro-financial stability and foster financial intermediation for stronger and more inclusive growth. Building on the progress achieved thus far, our immediate objective is to complete the rehabilitation of the banking sector, strengthen financial safety nets, and tackle regulatory gaps and emerging vulnerabilities in the non-banking sector.

5. **Moldovan banking sector is resilient.** Banks are well capitalized, with the capital adequacy ratio at 26.3 percent in May 2019. All banks remain liquid, with over 51.6 percent of assets held in liquid instruments, with a sizable share of assets held in NBM reserves and government bonds. Profitability ratios are healthy. We recognize the need to further reduce the level of nonperforming loans (NPLs), which remain high at 10.9 percent across the banking system.

6. **Regulatory reform implementation has advanced, supported by EU technical assistance.** The Law on Bank Activity, transposing EU CRD IV/CRR Directive on credit institutions, is in force since January-2018 and implementation of the supporting secondary legislation is well advanced. First COREP reports on capital requirements were presented in August 2018, and first ICAAP reports were presented in April 2019. Regulation on large exposures has entered into force in June 2019, and the regulation on related parties has been updated. Regulations on banking supervision have been enacted, including on the supervisory review and evaluation process (SREP, February 2019) and the organization of on-site inspections (January 2019). The regulation on consolidated bank supervision is undergoing public consultation review. Our overarching goal is to implement a fully-fledged risk-based and forward-looking supervision, built around the annual SREP process. We have attained recognition by the European Banking Authority among non-EU jurisdictions with confidentiality regimes equivalent to EU CRD IV, which deepens supervisory cooperation and information exchange.

7. **Efforts to rehabilitate the banking sector are paying off.** In particular, the transfer of ownership in the three systemic banks is nearly complete:

- The transfer of control of **Victoriabank** is concluded, with the special supervision regime lifted in August 2018. Banca Transilvania, Romania's largest bank, is the largest shareholder in Victoriabank, which together with the EBRD, a minority shareholder, jointly hold a controlling stake of 66.7 percent. The new majority shareholders are implementing appropriate corporate governance, risk management, and controls.

- The sale of 41.1 percent of **Moldova-Agroindbank**'s shares to an international consortium of investors (EBRD, Horizon Capital, and AB Invalda) in July 2018 signified another success of the banking sector's rehabilitation. To facilitate the sale of the shares issued to replace the cancelled shares of unfit bank shareholders, we employed pre-agreed back-to-back purchase and sale of shares to a fit-and-proper investor, thereby effectively minimizing legal risks to the investor. The Supervisory Board members nominated by new shareholders at the General Shareholders Meeting in November 2018 have been certified as fit-and-proper, and the special supervision regime was lifted in April 2019.

- In **Moldindconbank** (MICB), the back-to-back sale mechanism was also employed, resulting in the acquisition of the controlling 63.89 percent stake in February 2019 by Bulgaria's non-bank Doverie United Holding, a Sofia Stock Exchange listed company. Following a mandatory tender offer to minority shareholders, the new shareholder consolidated its majority stake to 77.62 percent. The General Shareholders Meeting on June 28, 2019 elected a Supervisory Board, which has been submitted for the NBM's review and confirmation. We remain committed to follow through with ensuring fit-and-proper certification of incoming managers to instill confidence in the bank's management, consistent with our plan to exit temporary administration regime in an orderly manner.

8. **We performed detailed investigations of shareholders of all domestic non-systemic banks and acted decisively on the findings of investigations of concerted action and fitness and probity of the shareholders.** In January 2019, the legal rights of shareholders acting in concert in two banks were suspended and a temporary administrator appointed in one of these banks.

9. **The implementation of unwinding of related party exposures is proceeding as planned.** As per program commitments, time-bound action plans were adopted in July 2018 for all domestic banks that are not part of foreign banking groups. As of May 2019, three out of seven banks have brought their exposures in line with prudential limits, while remaining banks reduced their exposures in accordance with the action plans. In consultation with the Fund, we updated the regulation on banks' transactions with related parties to calculate such exposures net of loan loss provisions for the purpose of meeting prudential requirements.

10. **We made progress in strengthening our safety nets, crisis prevention and contingency planning frameworks.**

- The coverage limit of the Deposit Guarantee was raised to 50 thousand lei and the coverage was expanded to legal entities (effective January 1, 2020) to better contribute to financial stability.

We made initial steps to strengthen governance and operational capacity of the Deposit Guarantee Fund and have appointed all members of its Supervisory Board.

- We have adopted the Law on National Financial Stability Committee, creating a designated interinstitutional structure tasked with coordinating the implementation of macroprudential policy and activities to prevent and remedy financial crisis situations. In line with the implementation provisions, the Committee's inaugural meeting was held on January 23, 2019.

11. **The Central Securities Depository (CSD) is now fully operational.** Secure, efficient, and well-regulated payment and clearing systems for the settlement of financial transactions where counterparty risks are effectively controlled and managed is an important pre-condition for a healthy financial system and its development. Towards this objective, the CSD is designed to guarantee the safety of securities, ensure the transparency of financial markets, and help develop new financial market instruments. The CSD began operations at end-July 2018 with the transfer of public debt securities, followed by the transfer of registers of bank and insurance companies completed in May 2019. The shareholder records in joint-stock companies traded at Moldova Stock Exchange and all other joint stock companies will be transferred to CSD by end-2019, and end-2020, respectively.

12. **Looking forward, we will concentrate our efforts and actions in the following areas:**

- **Strong and professional financial sector supervision will remain the cornerstone of our country's financial stability.** An appropriately strengthened NBM governance structure and independence has provided the foundation for the successful progress towards the program's financial sector objectives. In particular, broader and stronger legal powers granted to the supervisors as well as commensurate legal protection of NBM staff are important pre-conditions for supervisor's ability to act in an impartial and professional way. Safeguarding the NBM's ability to enforce appropriate supervisory and regulatory actions in a timely manner is key to ensuring stability and soundness of the banking system. To this end, we will amend the Law on the NBM, the Law on Bank Activity, and other relevant legislation to ensure that the NBM's supervisory function is carried out in an unhindered manner.

- **The NBM will allow MICB to exit temporary administration in an orderly manner (end-December 2019 structural benchmark, reset from end-October 2018).** The temporary administration regime, in place since October 2016, will be withdrawn only once adequate governance structures are in place. A priority will be given to ensure prudent management of the bank and avoid any conflict of interest or reputational hazards. In this context, the NBM will enforce rigorous professional standards for the bank's new management team and enhanced monitoring of its related party exposures and cross-border transactions. Our supervisory powers, such as dividend payout restrictions, will be exercised based on the supervisory judgement.

- **We will complete efforts to clean up ownership of two domestic non-systemic banks.** In line with the shareholder removal legal framework, the NBM adopted decisions requesting to remove unfit shareholders in two domestic non-systemic banks (**prior action**) and will implement steps prescribed by the framework—including the sequential share price reduction mechanism—for the newly issued shares with a view to attract sound investors, safeguard the banks' capital, and ensure fit-and-proper qualifications of its shareholders and managers.

- **The NBM will enforce continued implementation of the agreed time-bound unwinding plans for related party exposures.** We will ensure continued prudential effectiveness of the NBM's Regulation on Banks' Transactions with Related Parties.

- **Financial safety nets, crisis-preparedness, and contingency planning.** To further strengthen our legal and operational frameworks for emergency liquidity assistance (ELA), we will approve amendments to the Law on the NBM and other relevant legislation to ensure that ELA is extended only to solvent banks **(prior action)**. We will adopt related secondary legislation and implement the modified ELA operational framework before end-2019. We will also step up our efforts to fully operationalize the National Financial Stability Committee and strive to improve policy coordination among its members.

13. We commit to mitigate risks arising from the non-bank financial sector by strengthening its supervisory and regulatory framework.

- **Non-bank credit organizations.** We will adopt measures to strengthen financial stability of the sector, promote consumer protection and responsible lending practices, and mitigate household indebtedness risks. To that end, in consultation with the Fund, we will amend the legislation governing activities of non-bank credit organizations (**structural benchmark, end-October 2019**) to: (i) prohibit such entities from accepting deposits from the public, as per provisions of the Law on Bank Activity, (ii) oblige non-bank credit organizations to report new credit activity to the credit bureaus, (iii) introduce limits on total cost of consumer credits, and (iv) introduce an effective, proportionate, and dissuasive sanctioning regime. We will also enhance risk-based supervision and adopt necessary regulations to strengthen ownership transparency, governing bodies, asset classification, risk management, and internal control frameworks.

- **In the insurance sector**, we will implement the recommendations of the World Bank's 2018 diagnostics mission. We will tighten regulatory requirements and enhance supervision of capital adequacy and solvency, reserving, and asset valuation. We will take appropriate actions against insolvent companies and imprudent business practices. In collaboration with the World Bank, we will develop and adopt a legislative framework to shift from compliance-based to risk-based supervision over the medium-term.

B. Monetary and Exchange Rate Policies

14. Inflation temporarily breached the lower limit of the inflation consultation clause by a small margin. CPI inflation slowed to 0.9 percent in December 2018—0.1 percentage point below the outer band of the consultation clause—before rising to 2.2 percent the following month. As discussed in the May-2018 Inflation Report, inflation had been expected to ease driven by previous exchange rate appreciation and lower regulated and food price inflation. But the magnitude of the slowdown surprised, given a combination of further exchange rate appreciation, downside news to food prices, and larger-than-expected cuts to energy tariffs. In line with advice from IMF staff, the NBM judged appropriate to not ease monetary policy given that: (i) monetary policy operates with lags and therefore it would have mostly affected 2019 inflation; and (ii) the NBM's forecast pointed to a sharp inflation pick-up in 2019. Inflation rose in line with expectations in early 2019, reaching 5.4 percent in July, driven by a lower exchange rate at the turn of the year and higher regulated, food and tobacco price inflation. The NBM has since tightened monetary policy, in line with IMF staff advice.

15. The NBM's monetary policy framework will continue to be anchored by its inflation target. The NBM stands prepared to gradually adjust its policy rate to steer inflation towards the 5 percent target. The June 2019 policy rate increase signifies entering the monetary policy tightening phase. A policy tightening bias is now in place dictated by emerging inflationary pressures. The key drivers of near-term inflation include public and private sector wage growth, expansionary fiscal measures unveiled over the past year, exchange rate fluctuations, and expected adjustments to energy tariffs.

16. The NBM will not resist exchange rate movements driven by fundamentals, intervening in the foreign exchange market only to smooth excessive volatility. Moldova's vulnerability to external shocks requires having a flexible exchange rate as an effective shock absorber. The NIR targets set under the program are consistent with this commitment. To facilitate two-way flexibility and reduce the NBM's market footprint, we will develop and adopt a FX intervention strategy consistent with the inflation-targeting regime and IMF technical assistance guidance (**structural benchmark, end-December 2019**).

17. The NBM will strengthen its operational framework to enhance monetary policy transmission, liquidity management, and domestic currency intermediation. To this end, the NBM will:

- Adhere to the base rate as its primary monetary policy tool;
- Gradually recalibrate the reserve requirement ratios and remuneration policy by simultaneously reducing the MDL reserve requirement ratio and increasing the reserve requirement ratio on foreign currency liabilities, to be maintained in MDL, if market conditions allow;
- Allow further reductions in MDL reserve requirement ratio as structural excess liquidity normalizes.

18. The NBM will enhance its policy communication to anchor inflation expectations and ascertain policy awareness and credibility. Its external communication will give greater prominence to key considerations that weigh on monetary policy decisions. The NBM will continue to refine its forecasting process to strengthen outputs and decision-making. It will also establish regular information exchanges with relevant counterparts and stakeholders.

19. The NBM's ability to deliver on its policy mandates is conditional upon its institutional and policy independence. To this end, we will refrain from any initiative that would endanger the NBM's institutional and policy independence. We also commit to not amend the law regulating the securitization of emergency loans extended by the NBM to the three failed banks.

C. Fiscal Policy

20. Our 2019 fiscal plans are consistent with commitments under the program to preserve fiscal sustainability while protecting priority spending. To achieve this objective, we adopted amendments to the 2019 Budget consistent with the augmented deficit ceiling of MDL 6,219 million (**prior action**), equivalent to 3.0 percent of GDP. The amended budget: (i) redistributes gains from savings on employee vacancies in the budgetary sector towards covering higher wage bill needs of the local governments; (ii) reduces net on-lending to SOEs in line with expected project disbursements; (iii) rationalizes capital spending to reflect lower execution in the first six months of the year; (iv) increases excises for heat-not-burn and fine-cut tobacco products; (v) removes exemptions on income from lotteries and sports betting for winnings above MDL240; (vi) limits tax-free sales at duty-free shops to travelers leaving Moldova by sea or air; and (vii) removes tax exemptions on petroleum products sold in the customs control area.

21. Our 2020 fiscal plans aim to facilitate adequate developmental and social spending, in line with an augmented deficit of 3.0 percent of GDP. Towards this objective, we took measures to mobilize resources by rationalizing tax expenditures and raising revenue on CIT, PIT, VAT, excises, and property taxes. Specifically, we approved amendments to the Tax and Customs Codes (**prior action**) effective January 1, 2020 to (i) broaden the capital gains tax base to 100 percent for legal persons and 50 percent for individuals; (ii) increase the reduced VAT rate for HORECA from 10 to 20 percent; (iii) remove the personal allowance for annual incomes above MDL 360 thousand; (iv) remove tax exemptions applied to meal vouchers provided by employers; (v) remove VAT exemptions on goods imported by public-private partnerships; (vi) unify excise duty rates for cigarettes with and without filter; (vii) consolidate environmental taxes to increase tax on plastic packaging products by 20 percent; (viii) increase rates on personal income tax withheld in advance, from 7 to 12 percent; and (ix) reduce tax-free personal exemptions on merchandise shipped by mail to 200 euros.

22. We are committed to continued efforts to strengthen tax administration and improve tax compliance. We recognize that repeated past tax and capital amnesties eroded public trust in state institutions and undermined the legitimacy and fairness of the tax system. To demonstrate our commitment to fight tax evasion and strengthen the tax audit and investigative functions of the STS, we will:

- Amend the Tax Code (**prior action)** to (i) remove provisions that provide for the deduction of up to MDL 500,000 from the indirect method assessment of estimated taxable income, (ii) sunset by 2022 the carryover provision that allows for off-setting expenditures exceeding reported income against cash declared under the 2012 'Capital liberalization scheme';

- Amend the 2018 Capital and Tax Amnesty Law to remove the provision that the STS cannot perform audits prior to January 1, 2018 (**prior action**);

- Formally propose a date and adopt an action plan for the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes (**structural benchmark, end-December 2019**) with a view to start the automatic exchange of information on financial assets with other countries by end-2022; and assess scope for including a General Anti-Avoidance Rule provision to counter domestic and international abusive tax practices;

- Enhance the completeness and accuracy of the integrated taxpayer register, in collaboration with the IMF and the World Bank; and
- Undertake a comprehensive review of tax audits with a view to focus on risk-based approaches, strengthen the audit program design, and improve tax debt collection.

23. **We will continue strengthening the organizational structure and institutional capacity of the State Tax Service.** We see the establishment of the STS in April 2017 as an important step forward in our determination to modernize tax administration in Moldova. We intend to further align its function-based organizational structure, and consolidate divisions and branches around tax administration functions, such as tax payer service, registration, filing compliance, audit, and others. We will enhance the role of the executive council to drive strategic initiatives and reduce involvement of STS senior management in operational activity. The recently created Crime Establishment and Control Division will proactively identify tax crimes, with a clear priority given to the investigation of the most serious cases.

24. **We commit to strengthening our unitary pay system in the budgetary sector.** Since its introduction in December 2018, implementation of the new salary system has led to wage bill pressures due to (i) the absence of a comprehensive staff registry, and (ii) the adoption by parliament of ten reference values for different categories of budgetary sector employees. To improve control over the wage bill, we will develop technical specifications for a comprehensive IT-based staff registry by December 2019, with a view to have the registry fully operational by end-2020. We will also develop and adopt a time-bound plan by mid-2020 to phase out multiple reference values to improve budgetary process and medium-term planning.

25. **We intend to implement reforms to the pension system that ensure its long-term sustainability.** To this end, we will consult with the World Bank to evaluate the consequences of reducing the employer social contribution rate in the private sector, and we will refrain from ad hoc measures that put the pension system at risk.

26. **We will continue to enhance targeting and effective coverage of our social assistance programs**. We will update eligibility and benefit parameters of targeted social assistance programs, such as Ajutor Social and Heating Allowance, in coordination with other income support policies to prevent decline in coverage and to maintain benefits adequacy. We will revisit the list of documents required to apply for targeted benefits and expand the set of active labor market programs to social assistance beneficiaries to help reduce their reliance on cash transfers.

27. To support our medium-term fiscal objectives, we will take measures to strengthen our fiscal institutional frameworks. We will integrate findings from the 2018 spending review of Higher Education and Vocational Training into our MTBF and annual budget processes starting with the MTBF 2021–23. To this end, we plan to integrate spending review guidance into budget regulations. We are piloting our second spending review in the agriculture sector to better evaluate our spending needs.

28. We give high priority to promoting growth-enhancing investment in public infrastructure. Towards this objective, we plan to undertake a Public Investment Management Assessment (PIMA), supported by IMF technical assistance. We will use the findings of this assessment to improve planning, allocation, and implementation stages of the public investment management cycle.

29. We will continue expanding our fiscal risk statement. In particular, we will improve coverage, monitoring and reporting of risks emanating from enterprises fully or partially owned by the state and public-private partnerships, and take actions to reduce those risks.

30. We remain committed to eliminating audited state and local government arrears. We aim to improve the monitoring of arrears and prevent their accumulation. In particular, we will enforce full implementation of Article 67 of the Law on Public Finances and Fiscal Responsibility.

31. The development of the domestic government bond market remains one of our debt management objectives. To that end, the Ministry of Finance will continue to seek to enhance its communication with state securities market participants and extend the maturity of state securities.

D. Structural Reforms

32. Greater transparency, predictability, and good governance in the energy sector are our priority. Our objective is to have a predictable and transparent tariff policy based on sound methodologies and enforced by an independent and professionally qualified regulator. This will depoliticize tariff-setting and support medium-term growth by reducing uncertainty and improving the business environment.

- In the electricity sector, we will adopt in October 2019 tariffs fully based on the February 2018 methodology, including: (i) the settlement of the differences in the assessment of past financial deviations from April 2017-February 2018, and (ii) the approval of the basic costs for the first financial year of the 2018 methodology.

- In the gas sector, we will adopt 2019 tariffs fully based on the existing methodology and purchase price of natural gas (**structural benchmark, end-October 2019**).

- We will strive to align our energy sector regulatory framework to best European practices to promote much-needed energy investment. We will continue collaboration between stakeholders on energy-related issues, including with the Energy Community Secretariat and the World Bank.

33. We will take measures to strengthen economic governance. Our efforts will include enabling a level playing field for companies through fair and effective competition policies, easing entry into business, ensuring transparent government procurement, strengthening the rule of law and improving regulatory quality. We will promote strong tax, customs, and AML/CFT frameworks; and implement Moldova's commitments under the DCFTA and the EU Association agreements.

34. We will accelerate our efforts to recover assets stolen in the 2014 bank fraud. We have set up a parliamentary committee to expedite the investigation of activities related to the banking fraud. Going forward, we will:

- Address the authorities and judicial cooperation bodies of the European Union and the United States of America requesting to initiate an international investigation and prosecution of perpetrators of the bank fraud;

- Evaluate by end-October appropriate modalities to recover proceeds of the bank fraud, including by engaging independent international legal and forensic experts to (i) initiate civil and criminal proceedings in key foreign jurisdictions, (ii) make claims against parties who have facilitated or benefited from the fraud, and (iii) provide support to regulatory authorities and law enforcement bodies;

- Step up coordination, under the leadership of the Prime Minister, among all relevant stakeholders, including the NBM, prosecutor's office, National Anticorruption Center, Criminal Asset Recovery Agency, and AML Agency.

35. Enhance the capacity of National Integrity Authority (ANI) as a truly independent strong pillar of our anti-corruption framework, in cooperation with the World Bank. Asset and interest declarations of public officials will be reviewed in a timely and credible manner. We will adopt guidelines for declarants on the beneficial ownership of assets which should be reflected in the asset and interest declarations.

36. We will further strengthen our AML/CFT framework by implementing the 2018 AML Law and MONEYVAL recommendations. We will:

- Promote better reporting of suspicious transactions under the new reporting system by ensuring that all types of reporting entities become more familiar with their business-specific ML/TF threats and vulnerabilities, and better equipped to apply risk-based assessment tools and appropriate customer due diligence;

- Develop and implement a new suspicion-based transaction reporting IT system for all types of reporting entities; the NBM will implement an IT solution for monitoring bank shareholders' transparency and off-site analysis for AML/CFT purposes by end-2020;

- Adopt the Law on Sanctions for violations of ML/TF rules, in line with MONEYVAL recommendations and in coordination with the Council of Europe and European Union, by December 2019; meanwhile, we will take appropriate legislative actions to ensure the NBM's ability to sanction AML/CFT violations of entities under its supervision;

- Initiate a new National ML/TF Risks Assessment (NRA), with the support of the international partners, such as World Bank, to be completed by October 2020;

- Adopt guidelines for the exchange of AML/CFT information among all relevant stakeholders by mid-2020.

37. We remain committed to achieving sustainable and more inclusive growth. Improving the business environment and attracting foreign investments are key to fostering technological advancement and raising investment in infrastructure and human capital. In this context, we will continue reforms in education, health, and social policies, thereby raising human capital and helping counter migration and demographic pressures.

38. Effective policy-making requires timely, accurate, and comprehensive data. To this end, we commit to allocating adequate and sufficient resources to the National Bureau of Statistics.

E. Program Monitoring

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

Table 1. Moldova: Quantitative Performance Targets, June 2018 – December 2019

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

	Jun 2018				Sept 2018		Dec 2018				Mar 2019			Sep 2019	Dec 2019
	EBS/17/130 Target	Revised Target	Actual	Status	Prog. Target 3rd rev.	Actual	Prog. Target 3rd rev.	Adjusted Target 5/	Actual	Status	Prog. Target 3rd rev.	Adjusted Target 5/	Actual	Prog. Target 4th and 5th rev.	Prog. Target 4th and 5th rev.
1. Quantitative performance criteria 1/															
Ceiling on the ***augmented*** cash deficit of the general government	3,548	4,290	-789	**Met**	4,986	-1,499	5,681	6,949	2,009	**Met**	1,985	1,957	357	4,345	6,219
Of which: on-lending agreements with external creditors to state-owned enterprises	257	275	103		309	272	618	396	396		30	2	2	199	299
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) 2/	2,349	2,431	2,550	**Met**	2,592	2,678	2,629	2545	2,688	**Met**	2,752	2,668	2,510	2,480	2,570
2. Continuous performance criteria															
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	**Met**	0	0	0	0	0	**Met**	0	0	0	0	0
Ceiling on absorption by the government of losses or liabilities and making of payments on behalf of utilities and other companies	0	0	0	**Met**	0	0	0	0	0	**Met**	0	0	0	0	0
3. Indicative targets															
Ceiling on the stock of accumulated domestic government arrears 3/	0	0	12	**Not met**	0	12	0	0	3	**Not met**	0	0	3	0	0
Ceiling on the general government wage bill	7,244	7,616	7,005	**Met**	10,935	10,119	14,030	14,030	13,733	**Met**	3,968	3,968	4,034	12,270	15,983
Floor on priority social spending of the general government	9,463	9,291	9,332	**Met**	13,985	14,085	19,280	19,280	19,261	**Not met**	4,873	4,873	4,943	15,889	21,720
Floor on project spending funded from external sources 4/	647	433	366	**Not met**	1,366	641	2,963	2,963	1,114	**Not met**	148	148	142	1,102	2,142
4. Inflation Consultation Bands (in percent)															
Outer Band (upper limit)	5.6	5.2			5.0		5.0				5.8			8.2	9.5
Inner Band (upper limit)	4.6	4.2			4.0		4.0				4.8			7.2	8.5
Center point	3.6	3.2	3.2		3.0	2.4	3.0		0.9		3.8		2.8	6.2	7.5
Inner Band (lower limit)	2.6	2.2			2.0		2.0				2.8			5.2	6.5
Outer Band (lower limit)	1.6	1.2			1.0		1.0				1.8			4.2	5.5

1/ Indicative targets for September and March.
2/ The NIR target is set as specified in the TMU.
3/ As of January 2017, domestic expenditure arrears exclude local governments.
4/ N/A - target is new for 2018, and thus applicable only going forward.
5/ The NIR Targets for December 2018 and March 2019 have been adjusted as per the TMU for the shortfall in EU Grants and Loans and IMF budget support.

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

	Measure	Timeframe	Status
Prior Actions for Board Consideration of the Review			
1	Adopt amendments to the 2019 budget consistent with the augmented deficit ceiling (MEFP ¶20).		Met
2	Approve amendments to the Tax and Customs Codes (effective Jan. 1, 2020) to rationalize tax expenditures and raise revenues (MEFP ¶21).		Met
3	Amend the Tax Code to (i) remove provisions for the deduction of up to MDL 500,000 from the indirect method assessment of estimated taxable income, (ii) sunset by 2022 the carryover provision from the 2012 'capital liberalization scheme' (MEFP ¶22, first bullet).		Met
4	Amend the 2018 capital and tax amnesty law to remove the provision that the STS cannot perform audits prior to Jan. 1, 2018 (MEFP ¶22, second bullet).		Met
5	Approve amendments to the NBM Act and other laws to ensure that ELA is extended only to solvent banks (MEFP ¶12, fifth bullet).		Met
6	NBM adopte decisions requesting to remove unfit shareholders in two domestic non-systemic banks (MEFP ¶12, third bullet).		Met
Structural Benchmarks			
Financial Sector			
1	Finalize onsite inspections in banks that are part of foreign groups.	End-May 2018	Not met. Implemented in Jan. 2019.
2	NBM to allow a systemic bank to exit temporary administration in an orderly manner.	End-October 2018	Not met. Reset to End-Dec. 2019.
3	NBM to remove unfit shareholders in domestic non-systemic banks.	End-March 2019	Not met. Reset as PA#6.
4	NBM to ensure that credible time-bound action plans are in place for unwinding RP exposures for all domestic banks that are not part of foreign groups.	End-July 2018	Met
Energy sector			
5	In the electricity sector, new tariffs will be fully based on the February 2018 methodology and will also reflect differences in the assessment of financial deviations from April 2017-February 2018.	End-June 2018	Met
Proposed Structural Benchmarks			
Fiscal Sector			
1	Formally propose a date and adopt an action plan for the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes (MEFP ¶22, third bullet).	End-December 2019	
Financial Sector			
2	Amend the legislation on non-bank credit organizations to: (i) prohibit accepting deposits from the public, (ii) oblige reporting new credit activity to the credit bureaus, (iii) introduce limits on total cost of consumer credits, and (iv) strengthen sanctioning regime (MEFP ¶13, first bullet).	End-October 2019	
3	NBM to allow a systemic bank to exit temporary administration in an orderly manner (MEFP ¶12, second bullet).	End-December 2019	Reset from End-Oct. 2018
4	Develop an FX intervention strategy to facilitate two-way flexibility and reduce the NBM's market footprint (MEFP ¶16).	End-December 2019	
Energy sector			
5	Adopt 2019 gas tariffs fully based on the existing methodology and purchase price of natural gas (MEFP ¶32, second bullet).	End-October 2019	

Attachment II. Technical Memorandum of Understanding

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

A. Quantitative Program Targets

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

- the floor on the net international reserves (NIR) of NBM;
- the ceiling on the augmented overall cash deficit of the general government, i.e., the overall cash deficit of the general government augmented by on-lending agreements with external creditors to state-owned enterprises (SOEs);
- the ceiling on accumulation of external payment arrears of the general government (continuous).
- the ceiling on absorption by the government of losses or liabilities and making of payments on behalf of utilities and other companies (continuous);

Indicative targets are set on:

- the ceiling on the general government wage bill;
- the floor on priority social spending of the general government;
- the ceiling on stock of accumulated domestic government arrears (continuous);
- the floor on project spending funded from external sources, to comply with the Article 15.1 of the Fiscal Responsibility Law, starting in 2017 for the 2018 budget.

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

B. Program Assumptions

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

C. Institutional Definitions

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

D. Program Definitions

5. **NIR of the NBM** are defined as gross reserves in convertible currencies minus reserve liabilities in convertible currencies.

- For program monitoring purposes, **gross reserves** of the NBM are defined as monetary gold, holdings of SDRs, reserve position in the Fund, and holdings of foreign exchange in convertible currencies that are readily available for intervention in the foreign exchange market or in the securities issued by sovereigns, IFIs and explicitly guaranteed government agencies, with a minimum credit rating for such securities of AA-.[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.

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

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

adjustments for program purposes are made. On this basis, and consistent with the definition above, the stock of NIR of the NBM amounted to US2,292.6 as of end- September 2017.

6. For the purposes of calculating overall cash deficit and augmented overall cash deficit of the general government, **net domestic credit of the banking system** (NBM and commercial banks) to the general government is defined as outstanding claims of the banking system on the general government (exclusive of the claims associated with accrued interest, tax and social contribution payments by commercial banks, and foreign financed on-lending by banks), including overdrafts, direct credit and holdings of government securities, less deposits of the general government (excluding accrued interest on government deposits, and including the accounts for foreign-financed projects).[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.

Monitoring of this definition will be based on NBM's monetary survey and Treasury data. The Ministry of Finance will provide data on foreign-financed projects and balances in all other adjustment accounts that are elaborated in footnote 2. On this basis, and consistent with the definition above, the stock of the net domestic credit of the banking system shall be measured from below the line and as of end-June 2016 amounted to MDL 3,508 billion.

7. The overall cash deficit of the general government is cumulative from the beginning of a calendar year and will be monitored from the financing side at the current exchange rate established by NBM at the date of transaction. Accordingly, the cash deficit is defined, as the sum of net credit of the banking system to the general government (as defined in paragraph 6), the general government's net placement of securities outside the banking system, other net credit from the domestic non-banking sector to the general government, the general government's receipt of disbursements from external debt[5] for direct budgetary support and for project financing minus amortization paid, and privatization proceeds stemming from the sale of the general government's assets.

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

9. **Government securities in the form of coupon-bearing instruments** sold at face value will be treated as financing items in the fiscal accounts, in the amount actually received from buyers. On

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[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.

[5] Debt is defined as in footnote 4.

redemption date, the sales value (face value) will be recorded as amortization, and the coupon payments will be recorded as domestic interest payments.

10. For program monitoring purposes, the definition of **debt** is set forth in point no. 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Decision No. 15688-(14/107) adopted on December 5, 2014).[6] This definition applies also to commitments contracted or guaranteed for which value has not been received, and to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. Excluded from this definition are normal import-related credits, defined as liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion are self-liquidating; they contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities. External debt is defined by the residency of the creditor.

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

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

[6] The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(continued)

13. The **general government wage bill** will be defined as sum of budget spending on wages and salaries of public sector employees—according to economic budgetary classification, including but not limited to employer pension contributions and other social security contributions, and other remunerations (such as bonus payments). This definition of the general government wage bill is in line with current spending reported in line "Wages" of the general government budget according to the program classification of the annual budget except for salaries of SOEs and health care providers that are compensated from the Health Insurance Fund (FAOAM) itself.[7]

14. The **priority social spending of the general government** is defined as the sum of essential recurrent expenditures including pension[8] and unemployment insurance payments from the Social Insurance Fund (BASS, 9008/00286), the *Ajutor Social* (social assistance program 9015/00320) and heating allowance (9015/00322) during the cold season from the central government budget, as well as 94 percent of health expenditures from the main fund of the Health Insurance Fund.

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

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

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

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

16. **Absorption of losses or liabilities by the government and making of payments on behalf of utilities and other companies**. The program sets a continuous ceiling of zero on

[7] 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.

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

absorption by the public sector of losses or liabilities from outside the budgetary sector. Absorption of losses or liabilities is defined as direct payment by the government of the losses or liabilities of other parties or coverage of losses or liabilities by other transactions, such as accumulated stock of the financial deviation of the utility companies, debt-for-equity swaps or a write-off of tax obligations or other state claims.

E. Inflation Consultation Mechanism

17. The monetary conditionality will include a set of quarterly inflation targets (measured as the inflation of the headline consumer price index (CPI) published by the Moldovan National Bureau of Statistics) set within tolerance bands. The inner band is specified as +/- 1 percentage point around the central point. The outer band is specified as +/- 2 percentage point around the central point. Deviations from the bands would trigger a consultation with the staff or Executive Board which would focus on: (i) a broad-based assessment of the stance of monetary policy and whether the Fund-supported program is still on track; and (ii) the reasons for program deviations, taking into account compensating factors and proposed remedial actions if deemed necessary.

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

Inflation Consultation Bands

	2019		
	Mar	Sep	Dec
Outer Band (upper limit)	5.8	8.2	9.5
Inner Band (upper limit)	4.8	7.2	8.5
Center point	**3.8**	**6.2**	**7.5**
Inner Band (lower limit)	2.8	5.2	6.5
Outer Band (lower limit)	1.8	4.2	5.5

F. Adjusters

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

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

The **ceiling on the augmented overall cash deficit** of the general government will be adjusted upward—that is, the deficit target will be increased—by 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. The upward adjustments for 2019 is capped at the equivalent of MDL 721.3 million, valued at the program exchange rate; and

20. The **ceiling on the augmented overall cash deficit** of the general government will be adjusted downward—that is, the augmented deficit target will be tightened—by the amount of any shortfall between the total amount of actually disbursed and programmed onlending from external creditors to SOEs.[9] The latter is specified in the text table below.

Programmed Onlending to SOEs and Adjustments to Augmented Fiscal Deficit

	2019	
	Q3	Q4
Onlending to SOEs (programmed amount, millions of U.S. dollars)	11.2	16.8
Maximum downward adjustment on the augmented overall cash deficit (millions of Moldovan lei) 1/	198.8	298.7

1/ The adjustments for the year 2019 are evaluated at the exchange rate: 17.74 MDL/USD (the forecast of the Ministry of Economy).

21. The floor on **NIR of the NBM** will be lowered by any shortfall in the official external grants and loans at the equivalent of US$77 million and US$47 million respectively, valued at the program exchange rates. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in IMF budget support purchases relative to the baseline projection reported in Table 3.

G. Reporting Requirements

22. **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.

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

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

Item	Periodicity
Fiscal data (to be provided by the MoF)	Monthly, within three weeks of the end of each month
General budget operations for revenues, expenditure and financing (economic and functional classifications)	
General government wage bill at the level of budgets (state budget, local budgets, Social Insurance Fund and Health Insurance Fund) and functional groups	Monthly, within three weeks of the end of each month
Number of budgetary sector positions and employees at the level of budgets (state budget, local budgets, Social Insurance Fund and Health Insurance Fund) and functional groups	Monthly, within four weeks of the end of each month
Social expenditure including pension and unemployment payments from the Social Insurance Fund, the *Ajutor Social* (social assistance program) and heating allowance for the cold season from the central government budget, and health expenditures from the main fund of the Health Insurance Fund	Monthly, within three weeks of the end of each month
Domestic debt	Monthly, within three weeks of the end of each month
Domestic arrears	Monthly, within three weeks of the end of each month
Onlending to SOEs by type of onlending projects and external creditors (including loan disbursements and repayments)	Monthly, within three weeks of the end of each month
Onlending via commercial banks by type of onlending projects and external creditors (including loan disbursements and repayments)	Monthly, within three weeks of the end of each month
Monetary data (to be provided by the NBM)	Weekly, within one week of the end of each week
Monetary survey of the NBM	
Monetary survey for the whole banking system	Weekly, within two weeks of the end of each week
Net claims on general government (NBM and commercial banks)	Weekly, within two weeks of the end of each week
Financial position of commercial banks, including balance sheets, income statement, banking regulation indicators, capital, liquidity, data on credits and deposits (NBM)	Monthly, within four weeks of the end of each month

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

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
Balance of Payments (to be provided by the NBM)	One quarter after the end of the previous quarter
Current, capital, and financial account data.	
Transfers of individuals from abroad through the banking system	Monthly, within six weeks of the end of each month
External debt data (to be provided by MoF and NBM)	
Information on all new external loans contracted by the general government or guaranteed by the government.	Monthly, within three weeks of the end of each month
Total public and publicly guaranteed private sector outstanding debt service due and debt service paid, by creditor	Quarterly, within three weeks of the end of each quarter
Disbursements of grants and loans by recipient sector (state/local/SOEs), and by creditor	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)	
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

REPUBLIC OF MOLDOVA

September 6, 2019

FOURTH AND FIFTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, COMPLETION OF THE INFLATION CONSULTATION, AND REQUEST FOR EXTENSION OF THE ARRANGEMENTS AND REPHASING OF ACCESS—DEBT SUSTAINABILITY ANALYSIS

Approved By
Julie Kozack (IMF) and Marcello Estevão (WB)

Prepared by the staffs of the International Monetary Fund (IMF) and the World Bank (WB)

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

Moldova's risk of debt distress remains low—unchanged from the previous Debt Sustainability Analysis (DSA) published in December 2017. Overall public debt dynamics are sustainable and there is some space to absorb shocks in total public debt (baseline projections show that Moldova's PV of total PPG debt (external plus domestic)-to-GDP ratio remains below the new debt distress benchmark of 70 percent); a small increase in the external debt level in percent of GDP is explained by substantial developmental needs, which would require large public and private investments. Public investments are largely financed by concessional donor funding and commercial borrowing in the longer-term. Private sector external debt remains relatively high for a low-income country which, despite mitigating factors, could pose risks to external debt sustainability. In view of the country's significant vulnerability to shocks, fiscal discipline remains critical to ensure sustainability. To improve the efficiency of public investment, a comprehensive strategy to strengthen public investment management frameworks needs to be developed. In the medium-to-long term, strong macroeconomic policies and institutions are needed to unlock growth potential, such as: improving governance and fighting corruption; strengthening banking intermediation; creating a business-friendly environment for the private sector to flourish; ensuring a transparent and efficient energy sector; and addressing adverse impacts from demographic trends and labor migration.

PUBLIC DEBT COVERAGE

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

Text Table 1. Moldova: Public Debt Coverage

Public debt coverage

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

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		
		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	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	0.00	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	10	
	Total (2+3+4+5) (in percent of GDP)		12.0	

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

BACKGROUND ON DEBT

2. Public debt increased substantially during 2013–15 as a result of the banking crisis but moderated by 2018 to about 30 percent of GDP (see Text Table 2). Public and publicly guaranteed debt reached 39.5 percent of GDP in 2015, up from about 26.9 percent of GDP in 2010. A key driver of the increase in public debt was the issuance of a state guarantee to the National Bank of Moldova (NBM) to provide emergency liquidity to the banking sector. Public debt was on a downward path since 2016, returning to the level seen in 2009. In 2018, the EU and other donors temporarily paused financial assistance to Moldova over concerns about governance and deteriorating democratic standards during the

[1] PPG debt covers gross debt of the general government. SOEs external debt is only included if it is explicitly guaranteed by the government. Both on-lending to the private sector (operationalized through commercial banks) and to SOEs are part of public guarantees and are included. Debt of SOEs (majority owned by the state) with maturity longer than a year accounts for 1 percent of GDP as of 2018. In line with the DSA guidelines, public debt includes liabilities towards the IMF. Staff and the authorities will continue working towards expanding debt coverage for local governments' debt, SOEs and PPPs to include all existing debt obligations. Due to the lack of data, information on PPPs is currently limited. The change in coverage complicates intertemporal analysis of PPG debt. The contingent liabilities shock from SOE debt is set at the default value of 2 percent of GDP to reflect risks associated with borrowing of SOEs majority owned by the state, while a contingent liability shock of 12 percent of GDP is meant to also capture risks from PPPs and SOEs that are partially owned by the state.

pre-election campaign. Currently, 30 percent of PPG domestic marketable debt are long-term debt securities (government securities with maturity longer than 12 months). Other domestic marketable debt is mainly short-term and held by the banking system[2]. In addition, the stock of domestic arrears to suppliers amounting to MDL 54.7 million (0.03 percent of GDP) by end-2018 is included in domestic debt.

Text Table 2. Moldova: Composition of Public and Publicly-Guaranteed Debt, 2018

	2018	
	US$ mln	**% of GDP**
Total public and publicly guaranteed debt	***3394.7***	***30.6%***
A. Domestic debt	**1456.0**	**12.9%**
Of which: domestic marketable debt	461.6	*4%*
T-bills	*323.5*	*3%*
3-month	24.4	*0%*
6-month	98.2	*1%*
12-month	201.0	*2%*
Bonds	*138.1*	*1%*
1-year	0.0	*0%*
2-year	81.5	*1%*
3-year	40.2	*0%*
5-year	16.3	*0%*
B. External debt	**1,938.6**	***17.5%***
Central Government	*1,689.0*	*15.2%*
Of which:		
Official multilateral	1,393.4	*12.6%*
Official bilateral	295.6	*2.7%*
Local Government	*17.1*	*0.2%*
Of which:		
Official multilateral	17.0	*0.2%*
Financial and non-financial public corporations	*14.7*	*0.1%*
NBM debt to IMF	*217.8*	*2.0%*

3. **Moldova's total external debt reached 79.4 percent of GDP by end-2015 but moderated since then to 64.9 by the end of 2018.** The reduction largely reflects the strong appreciation of the nominal exchange rate during 2017 (by an estimated 11.3 percent) amid renewed capital inflows. Private external debt is relatively high for a low-income country and amounts to 47.4 percent of GDP. The recent decline in private sector debt is explained by the decrease in overseas borrowing by the banking sector, reflecting the impact of the banking crisis.[3] Similar to other Central and Eastern European countries, while gross private external debt in Moldova is sizable about 35 percent of it are liabilities to direct investors

[2] The breakdown of the total PPG domestic debt excludes the bonds related to the capitalization of banks.

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

(Moldova foreign-owned companies borrowing from their parent companies abroad). Short-term debt of the non-bank sector is high as well, about one third of nonbank debt, and consists of trade credits, arrears, and other debt liabilities, mostly for the import of natural resources. Foreign assets of the nonbank sector have shrunk in recent years but remain sizable (about 40 percent of gross nonbank external liabilities) and mainly held in the form of currency, deposits, and short-term loans (trade credits). Public and publicly guaranteed (PPG) external debt (17.5 percent of GDP) is held mainly by multilateral and bilateral donors, and is mostly medium and long term, and on concessional terms. High private external debt in Moldova poses risks to external debt sustainability, nevertheless, overall risk of total external debt distress is assessed as low due to the mitigating factors discussed above.

BACKGROUND ON MACRO FORECASTS

4. The baseline macroeconomic assumptions for the DSA reflect recent economic developments and policies underpinning the ECF/EFF-supported program. The baseline scenario relies on full implementation of fiscal adjustment, as well as financial and structural reforms envisaged under the program. Economic performance is expected to remain solid over the medium term, with steady growth, moderate inflation, and a gradual narrowing of the current account deficit. The baseline scenario includes the most recent IMF global assumptions and the latest available information on Moldova's debt:

a. **Real GDP.** Moldova has experienced a period of relatively strong growth during 2016-2017, as the recovery from the banking crisis continued. Real GDP grew by 4 percent in 2018, supported by infrastructure and private investments.[4] Robust growth continued in 2019Q1, driven by agricultural exports. Notwithstanding considerable uncertainty, staff assesses the output gap to be broadly closed in the forecasted period. Over the medium-term, growth is expected to average about 3.8 percent (see Text Table 3).

b. **Inflation.** Headline inflation slowed in 2018, temporarily sliding below the NBM's band. Food and fuel inflation decelerated significantly in 2018, while prices of regulated items fell due to downward adjustments of energy tariffs. With these effects gradually fading out, inflationary pressures have started to build up since early 2019, against the background of the expansionary fiscal stance and pass-through from the leu's depreciation. The policy rate was increased in June 2019, for the first time since December 2017, and again in July. Over the medium-term, inflation is expected to remain anchored at 5 percent—the authorities' inflation target. These projections are broadly in line with those in the previous DSA.

c. **Fiscal.** The fiscal position deteriorated sharply in 2019. During 2019, the government deficit widened sharply driven by shortfalls in EU grants, under-performance of the corporate income tax

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

(CIT) and excises, and wage bill overruns. Nonetheless, the fiscal deterioration is projected to be fully reversed, supported by the authorities' robust measures (to strengthen tax administration and improve tax compliance; to revise/remove certain tax exemptions and streamline subsidies; to mobilize resources for developmental and social spending; and to strengthen the unified public wage system and improve control over the wage bill) to bring the fiscal performance back on track. Over the medium term, revenues are expected to stabilize, while strengthened fiscal frameworks will help to discipline expenditures[5].

d. **External sector.** The current account deficit (CAD) deteriorated to over 10 percent of GDP in 2018 on the back of strong domestic demand and real exchange rate appreciation. The CAD is expected to moderate to 9.5 percent of GDP in 2019 and adjust to below 7 percent of GDP throughout the medium term, financed by strong capital and investment flows. Robust private financial inflows (including remittances) led to a moderate buildup of reserves that remain adequate at about 170 percent of the IMF composite reserve adequacy metric in 2018. The leu appreciated in nominal terms in 2018 but has lost some of its strength in 2019.

e. **External borrowing.** The DSA assumes that all contracted-but-undisbursed concessional loans will be fully disbursed over the coming years, as planned by the authorities. New borrowings (including concessional) are projected to rise over the longer term to finance the country's high development needs. This plays a key role in the DSA and explains to some extent the upward slope in debt burden indicators, including for total external debt level indicators.[6] Moldova will continue to benefit from significant grant financing in the medium-term, leaving the grant element of new borrowing at about 36.4 percent. In the short-term, the external financing need—estimated at US$171 million in 2019[7]—will be fully covered by the resumption of disbursement of EU's MFA and budget grants (US$124 million, of which up to US$71 million set aside for MFA budget support grants and loans), and Fund disbursement of SDR 33.6 million (US$ 46.5 million), of which SDR 20.1 million (US$27.9 million) disbursed for budget support (ECF: SDR 6.7 million and EFF: SDR 13.4 million). In 2020, the smaller external financing gap, at US$132 million, will be financed mainly by EU funds (US$72 million) and the World Bank's Development Policy Operation (DPO) (US$40 million), with the residual gap closed via a disbursement equivalent to SDR 14.4 million (US$20 million) under the ECF/EFF.

f. **Domestic borrowing.** Domestic borrowing is assumed to remain limited over the medium-term. Domestic borrowing is expected to remain about 10 percent of GDP in 2039, reflecting only a gradual deepening of domestic financial markets.

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[5] Some fiscal measures for 2020 are not presently included into staff's projections due to the costing ambiguity. These measures could potentially yield about 0.3-0.6 percent of GDP in revenue.

[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] Exceptional financing.

Text Table 3. Moldova: Key Macroeconomic Assumptions (DSA September 2019 vs DSA December 2017)

	2017-19	2020-29
Real GDP growth (percent)		
DSA September 2019	4.1	3.8
DSA December 2017	3.4	3.9
Inflation (GDP deflator, in US dollar terms)		
DSA September 2019	8.9	1.9
DSA December 2017	9.1	2.3
Total Revenue (percent of GDP)[1]		
DSA September 2019	29.8	29.4
DSA December 2017	34.0	33.1
Current Account (non-interest, in percent of GDP)		
DSA September 2019	7.9	6.1
DSA December 2017	5.0	4.1

Source: Moldova authorities and Staff calculations.

[1] Total revenue, inlcuding grants.

5. The debt sustainability framework's newly-added realism tools suggest that the baseline projections are reasonable (Figures 3 and 4). The evolution of the projection of external and PPG debt to GDP ratios are broadly consistent for the current and previous DSA vintages, while they reflect major deviations from the DSA from 5 years past. This is because the public debt ratio increased significantly after 2013 and reached its highest level in 2015. In terms of projections, the ECF/EFF program, which also aims at a sustainable debt path, is the main reason why the current and recent DSA vintages deviate from the DSA prepared in 2013. For external public debt, projected debt levels remain about constant, while the projected debt creating flows deviate from the five-year historical change because of projected higher current account deficits. For total public debt, the slight decline in the projected debt levels in the medium-to-long term is driven mainly by the real GDP growth which offsets negative contributions from the widening primary balance in the short-term, whereas the five-year historic surge in debt was due to significant increase in other debt creating flows attributed to government financing related to the recapitalization of banks. The difference over 2019-20 between the baseline growth projections and growth projections implied by standard fiscal multipliers reflects the impact of political uncertainty in 2019H1. Growth is expected to rebound in 2020. The 3-year adjustment in the fiscal primary balance based on the realism tool is credible, as it does not fall in the upper quartile of the distribution of past adjustments relative to peers.

6. Public investment and growth. The ongoing program aims at augmenting public investment with growth-enhancing structural reforms, including SOE reform, and an improvement of the business environment, which are expected to enhance domestic and foreign private investments (Figure 2).

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

7. Moldova's debt carrying capacity is strong. The composite indicator (CI), which captures the impact of several factors through a weighted average of an institutional indicator[8], real GDP growth, remittances[9], international reserves, and world growth, confirms that Moldova's debt carrying capacity is classified to be 'strong', which is unchanged from the previous two DSA rounds (Text Table 4) [10]. The debt carrying capacity, in turn, determines the PPG external debt thresholds and total public debt benchmarks.

8. Stress tests follow standardized settings. Under standardized stress tests, all PPG external debt indicators remain below the policy relevant thresholds (Table 3 and Figure 1). Moldova does not have prominent economic features such as natural disasters, significant reliance on commodity exports, market financing, etc. that 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.

Text Table 4. Moldova: Debt Carrying Capacity and Applicable 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 3.34	Strong 3.25	Strong 3.73

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

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

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

[10] Moldova's Composite Indicator (CI) is 3.34, which corresponds to a strong debt-carrying capacity as confirmed by the April 2019 WEO data and 2018 Country Policy and Institutional Assessment (CPIA).

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

9. Under the baseline scenario and alternative scenarios, all external debt indicators continue to remain below their policy-relevant thresholds (Table 1, Figure 1). Starting in 2020, after the conclusion of the ECF/EFF arrangement, new external loan financing will consist primarily of borrowing from multilateral and bilateral lenders by 2030, while commercial borrowing is expected to start playing a larger role in the long-term, reaching about 70 percent of total public sector borrowing by 2039. The present value of PPG external debt is projected at 12.1 percent of GDP in 2019 and is only increasing marginally to 13.4 percent by 2029. The ratio will remain below the 55 percent threshold under the baseline scenario throughout the projection period. Similarly, debt service indicators remain well below their respective thresholds and on a broadly downward trend. Improvements in debt-management practices envisaged under the authorities' reforms will give further resilience to shocks affecting debt service needs. A tailored stress test for the contingent liability shock also does not cause any breach of relevant thresholds. Under the most extreme scenario, most PPG debt indicators show significant increase in their values coming closer to the indicative threshold, but, nevertheless, do not breach it. These outcomes highlight the importance of sound macroeconomic policies and prudent fiscal policy.

10. While the external risk rating is determined by the PPG external debt, large private external debt pose some potential roll-over risks.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

11. Under the baseline and alternative scenarios, indicators of the overall public debt burden (external plus domestic) lie comfortably below the benchmark. The PV of public debt–to-GDP in 2019 stands below the benchmark level of 70 percent. The authorities committed to undertake substantial fiscal measures to correct for fiscal slippages from 2018. Moldova's PV of total public debt-to-GDP is expected to be stable round 26 percent in the medium-term, remaining below the benchmark in the medium-to-long term (Figure 2). However, under the most extreme shock scenario (growth shock), the PV of public debt-to-GDP shoots up significantly throughout all or most of the projection period as the country accumulates more debt to finance larger fiscal and current account deficits. Such scenario highlights the risks to debt sustainability faced by the authorities in the absence of needed policy reforms. A significant contingent liabilities shock (to state-owned enterprises) would increase debt levels notably, though such risks are difficult to quantify exactly due to lack of good data on SOEs and PPPs.

RISK RATING AND VULNERABILITIES

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

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

- **Moldova's overall public debt dynamics are also projected to remain on a sustainable path under the baseline and alternative scenarios.** Total PPG debt is sensitive to the growth shock scenario, as the country accumulates significant debt to finance larger fiscal and current account deficits. Therefore, pursuing prudent fiscal policy, improving the quality of institutional frameworks, for which the World Bank's 2018 Debt Management Performance Assessment (DeMPA) provides a sound diagnostic basis regarding debt management aspects, and advancing structural reforms remain key to ensuring debt sustainability, increasing the economy's growth potential, and reducing vulnerability to shocks. Furthermore, development of the domestic debt market could further strengthen the outlook for debt sustainability, especially considering the country's developmental needs and significant dependence on foreign assistance in the form of grants and concessional loans. Continuous efforts to lengthen the average maturity of domestic debt and deepen the secondary market would help reduce the PPG domestic debt roll-over and interest rate risks.

AUTHORITIES' VIEWS

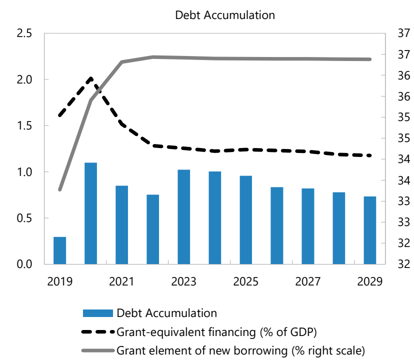
13. The authorities broadly agreed with staff's assessment of Moldova's public debt situation and recommendations on debt management policy. They broadly concurred with the staff's assessment of debt composition, projections, risk ratings and distress level. They recognize that preserving fiscal policy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

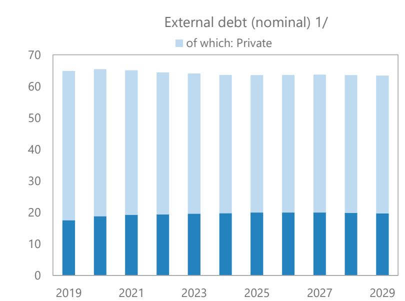
Table 1. Moldova: External Debt Sustainability Framework, Baseline Scenario, 2018–2039

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	64.9	64.9	65.5	65.1	64.4	64.1	63.6	63.4	64.6	72.0	64.1
of which: public and publicly guaranteed (PPG)	17.5	17.5	18.8	19.3	19.3	19.6	19.8	19.7	19.5	20.1	19.4
Change in external debt	-5.5	0.0	0.6	-0.4	-0.7	-0.4	-0.5	-0.1	-0.3		
Identified net debt-creating flows	-1.5	3.2	4.4	3.8	3.1	2.5	2.0	0.8	0.4	0.9	2.3
Non-interest current account deficit	9.3	9.0	8.5	7.9	7.1	6.3	5.8	4.6	4.2	6.2	6.3
Deficit in balance of goods and services	25.7	26.0	25.8	25.3	24.7	24.0	23.2	23.2	23.0	29.6	24.1
Exports	34.8	36.5	37.4	38.0	38.2	38.3	38.3	38.7	39.5		
Imports	60.5	62.4	63.3	63.3	63.0	62.3	61.5	61.8	62.5		
Net current transfers (negative = inflow)	-10.4	-11.0	-11.2	-11.3	-11.4	-11.4	-11.3	-11.3	-11.3	-15.6	-11.3
of which: official	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8		
Other current account flows (negative = net inflow)	-6.1	-6.0	-6.1	-6.1	-6.2	-6.2	-6.1	-7.3	-7.6	-7.8	-6.5
Net FDI (negative = inflow)	-1.4	-4.2	-2.3	-2.3	-2.4	-2.4	-2.4	-2.4	-2.4	-2.1	-2.5
Endogenous debt dynamics 2/	-9.4	-1.7	-1.8	-1.8	-1.6	-1.5	-1.4	-1.4	-1.4		
Contribution from nominal interest rate	0.8	0.5	0.6	0.6	0.7	0.8	0.9	0.9	0.9		
Contribution from real GDP growth	-2.4	-2.2	-2.3	-2.4	-2.3	-2.3	-2.3	-2.3	-2.3		
Contribution from price and exchange rate changes	-7.8	...	...	...	...	...	...	...	...		
Residual 3/	-4.0	-3.2	-3.9	-4.1	-3.8	-2.8	-2.5	-0.9	-0.6	-1.1	-2.4
of which: exceptional financing	-0.4	-1.1	-1.2	-0.4	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	12.2	12.1	12.6	12.7	12.7	13.0	13.2	13.4	15.5		
PV of PPG external debt-to-exports ratio	35.2	33.3	33.6	33.5	33.3	33.9	34.5	34.7	39.3		
PPG debt service-to-exports ratio	6.0	4.9	4.6	4.0	3.1	2.3	2.3	2.7	6.6		
PPG debt service-to-revenue ratio	6.9	6.0	5.9	5.1	4.1	3.0	3.0	3.6	8.8		
Gross external financing need (Million of U.S. dollars)	3152.1	3182.3	3431.5	3570.3	3780.0	3981.2	4096.7	5964.4	12997.3		
Key macroeconomic assumptions											
Real GDP growth (in percent)	4.0	3.5	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.3	3.8
GDP deflator in US dollar terms (change in percent)	12.4	-0.1	1.2	1.8	1.9	1.9	2.1	1.9	1.9	3.7	1.7
Effective interest rate (percent) 4/	1.4	0.9	0.9	0.9	1.1	1.3	1.4	1.4	1.5	1.1	1.3
Growth of exports of G&S (US dollar terms, in percent)	12.4	8.4	7.9	7.1	6.6	6.0	5.9	6.0	6.0	5.9	6.5
Growth of imports of G&S (US dollar terms, in percent)	19.2	6.7	6.5	5.6	5.3	4.7	4.6	5.9	5.9	3.6	5.7
Grant element of new public sector borrowing (in percent)	...	33.3	35.4	36.3	36.4	36.4	36.4	36.4	11.3	...	36.0
Government revenues (excluding grants, in percent of GDP)	30.3	29.8	29.7	29.5	29.3	29.4	29.4	29.3	29.3	30.0	29.4
Aid flows (in Million of US dollars) 5/	65.2	150.7	238.3	162.7	119.4	128.9	138.7	184.5	284.1		
Grant-equivalent financing (in percent of GDP) 6/	...	1.6	2.0	1.5	1.3	1.3	1.2	1.2	0.8	...	1.4
Grant-equivalent financing (in percent of external financing) 6/	...	52.3	47.7	46.8	49.5	50.0	50.4	51.2	26.3	...	50.0
Nominal GDP (Million of US dollars)	11,309	11,688	12,281	12,975	13,725	14,512	15,376	20,398	35,899		
Nominal dollar GDP growth	16.9	3.3	5.1	5.7	5.8	5.7	5.9	5.8	5.8	7.4	5.5
Memorandum items:											
PV of external debt 7/	59.7	59.5	59.2	58.6	57.8	57.5	57.0	57.1	60.6		
In percent of exports	171.7	163.1	158.2	154.2	151.2	149.9	148.8	147.6	153.5		
Total external debt service-to-exports ratio	57.5	61.4	58.0	57.8	59.5	61.2	60.6	69.9	87.2		
PV of PPG external debt (in Million of US dollars)	1384.1	1417.5	1545.9	1650.2	1747.8	1887.9	2033.4	2740.9	5569.7		
(PVt-PVt-1)/GDPt-1 (in percent)		0.3	1.1	0.8	0.8	1.0	1.0	0.7	0.5		
Non-interest current account deficit that stabilizes debt ratio	14.8	9.0	7.9	8.2	7.8	6.7	6.3	4.7	4.4		

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.

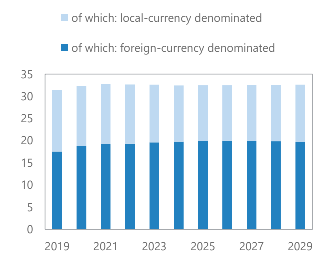
Table 2. Moldova: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–2039

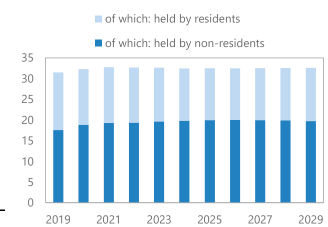
(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	30.6	31.5	32.3	32.8	32.7	32.6	32.5	32.6	31.5	31.2	32.4
of which: external debt	17.5	17.5	18.8	19.3	19.3	19.6	19.8	19.7	19.5	20.1	19.4
Change in public sector debt	-2.1	0.9	0.8	0.5	-0.1	0.0	-0.2	0.0	-0.3		
Identified debt-creating flows	-0.9	1.2	1.3	0.9	0.2	0.1	-0.1	0.1	-0.3	0.6	0.4
Primary deficit	0.3	2.1	2.1	2.0	1.3	1.2	1.1	1.3	0.7	1.3	1.5
Revenue and grants	30.5	30.7	30.5	30.0	29.8	29.9	29.9	29.9	29.9	31.5	30.0
of which: grants	0.2	0.9	0.8	0.5	0.5	0.5	0.5	0.5	0.5		
Primary (noninterest) expenditure	30.8	32.8	32.5	31.9	31.1	31.2	31.0	31.1	30.6	32.8	31.5
Automatic debt dynamics	-1.0	-0.8	-0.8	-1.0	-1.1	-1.1	-1.1	-1.1	-1.0		
Contribution from interest rate/growth differential	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.2	-1.0		
of which: contribution from average real interest rate	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.2		
of which: contribution from real GDP growth	-1.3	-1.0	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2		
Contribution from real exchange rate depreciation	0.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.7	0.0
Privatization receipts (negative)	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-1.2	-0.1	-0.1	-0.3	-0.2	-0.1	-0.1	0.0	0.0	0.1	-0.1
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	25.6	26.2	26.4	26.5	26.4	26.3	26.2	26.7	27.9		
PV of public debt-to-revenue and grants ratio	84.0	85.6	86.6	88.5	88.6	88.0	87.7	89.2	93.4		
Debt service-to-revenue and grants ratio 3/	13.6	23.7	23.2	23.6	23.0	22.5	22.6	23.2	25.1		
Gross financing need 4/	4.3	9.3	9.1	9.0	8.1	7.9	7.8	8.2	8.2		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	4.0	3.5	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.3	3.8
Average nominal interest rate on external debt (in percent)	1.3	1.6	1.3	1.3	1.3	1.3	1.3	1.3	2.5	1.3	1.3
Average real interest rate on domestic debt (in percent)	2.4	-0.1	1.3	1.8	1.8	1.8	1.7	1.4	0.4	-1.2	1.4
Real exchange rate depreciation (in percent, + indicates depreciation)	0.4	...	...	...	...	...	...	...	...	-0.3	...
Inflation rate (GDP deflator, in percent)	2.1	5.4	5.4	5.0	5.0	5.0	5.0	5.0	5.0	8.5	5.1
Growth of real primary spending (deflated by GDP deflator, in percent)	8.2	10.3	3.0	2.0	1.0	4.1	3.3	3.7	3.7	0.8	3.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.3	1.3	1.2	1.5	1.4	1.3	1.3	1.2	1.0	3.2	1.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–2029

(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	12	13	13	13	13	13	13	13	13	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	12	11	10	10	10	11	12	13	14	15	17
B. Bound Tests											
B1. Real GDP growth	12	14	15	15	15	15	16	16	16	16	16
B2. Primary balance	12	13	13	13	14	14	15	15	15	15	15
B3. Exports	12	17	26	26	26	26	26	26	25	24	23
B4. Other flows 3/	12	15	18	18	18	18	19	18	18	18	17
B5. Depreciation	12	16	10	10	11	11	11	12	12	12	13
B6. Combination of B1-B5	12	18	19	19	19	19	19	19	19	18	18
C. Tailored Tests											
C1. Combined contingent liabilities	12	15	16	16	17	18	18	19	19	19	19
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	33	34	34	33	34	35	35	35	35	35	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	33	30	27	26	27	28	31	33	36	39	43
B. Bound Tests											
B1. Real GDP growth	33	34	34	33	34	35	35	35	35	35	35
B2. Primary balance	33	34	35	35	36	37	38	38	38	38	38
B3. Exports	33	54	94	93	93	94	94	92	88	85	81
B4. Other flows 3/	33	41	48	47	48	48	48	48	47	45	44
B5. Depreciation	33	34	21	21	22	23	24	24	25	26	26
B6. Combination of B1-B5	33	50	44	53	54	54	54	53	52	51	50
C. Tailored Tests											
C1. Combined contingent liabilities	33	39	41	42	45	47	48	49	49	49	49
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	5	5	4	3	2	2	2	3	3	3	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	5	4	3	2	2	2	2	2	2	2
B. Bound Tests											
B1. Real GDP growth	5	5	4	3	2	2	2	3	3	3	3
B2. Primary balance	5	5	4	3	2	2	3	3	3	3	3
B3. Exports	5	6	6	5	4	4	4	6	8	7	7
B4. Other flows 3/	5	5	4	3	3	3	3	3	4	4	4
B5. Depreciation	5	5	4	3	2	2	2	3	2	2	2
B6. Combination of B1-B5	5	5	5	4	3	3	3	4	4	4	4
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	4	3	2	2	3	3	3	3	3
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	6	6	5	4	3	3	3	4	4	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	6	6	5	4	3	3	3	3	3	3	3
B. Bound Tests											
B1. Real GDP growth	6	6	6	5	4	3	4	4	4	4	4
B2. Primary balance	6	6	5	4	3	3	3	4	4	4	4
B3. Exports	6	6	6	5	4	4	4	6	7	7	7
B4. Other flows 3/	6	6	5	4	3	3	4	5	5	5	5
B5. Depreciation	6	7	6	5	3	3	4	4	3	3	3
B6. Combination of B1-B5	6	6	6	5	4	4	4	5	5	5	5
C. Tailored Tests											
C1. Combined contingent liabilities	6	6	5	4	3	3	4	4	4	4	4
Threshold	23	23	23	23	23	23	23	23	23	23	23

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

Table 4. Moldova: Sensitivity Analysis for Key Indicators of Public Debt 2019–2029

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	PV of Debt-to-GDP Ratio										
Baseline	26	26	27	26	26	26	26	26	26	27	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	26	25	24	23	23	23	22	22	21	21	21
B. Bound Tests											
B1. Real GDP growth	26	31	38	41	45	49	52	55	59	62	65
B2. Primary balance	26	28	29	29	29	28	28	28	28	28	28
B3. Exports	26	31	39	38	38	38	38	37	36	36	35
B4. Other flows 3/	26	29	32	32	32	32	32	31	31	31	30
B5. Depreciation	26	27	24	23	22	20	19	17	16	15	14
B6. Combination of B1-B5	26	27	27	27	28	28	28	28	28	28	28
C. Tailored Tests											
C1. Combined contingent liabilities	26	37	37	36	35	35	35	34	34	34	34
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
	PV of Debt-to-Revenue Ratio										
Baseline	86	87	88	89	88	88	88	88	88	89	89
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	86	83	81	79	77	76	74	73	72	71	70
B. Bound Tests											
B1. Real GDP growth	86	100	125	138	150	162	174	185	196	207	218
B2. Primary balance	86	91	97	96	95	95	95	94	95	95	95
B3. Exports	86	101	129	129	128	127	126	125	122	119	117
B4. Other flows 3/	86	96	107	107	106	106	106	105	104	103	102
B5. Depreciation	86	88	82	78	73	68	63	59	54	50	46
B6. Combination of B1-B5	86	88	92	92	92	92	93	93	94	94	95
C. Tailored Tests											
C1. Combined contingent liabilities	86	122	122	121	119	117	116	115	114	114	114
	Debt Service-to-Revenue Ratio										
Baseline	24	23	24	23	22	23	23	22	22	22	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	24	23	21	20	19	19	19	18	18	18	18
B. Bound Tests											
B1. Real GDP growth	24	25	31	37	42	47	51	54	57	60	63
B2. Primary balance	24	23	26	27	26	25	25	24	24	24	25
B3. Exports	24	23	24	24	23	23	23	24	25	26	26
B4. Other flows 3/	24	23	24	23	23	23	23	23	24	24	24
B5. Depreciation	24	22	23	20	21	21	22	21	21	20	20
B6. Combination of B1-B5	24	23	24	24	24	24	25	25	24	25	26
C. Tailored Tests											
C1. Combined contingent liabilities	24	23	41	37	37	33	32	30	29	28	28

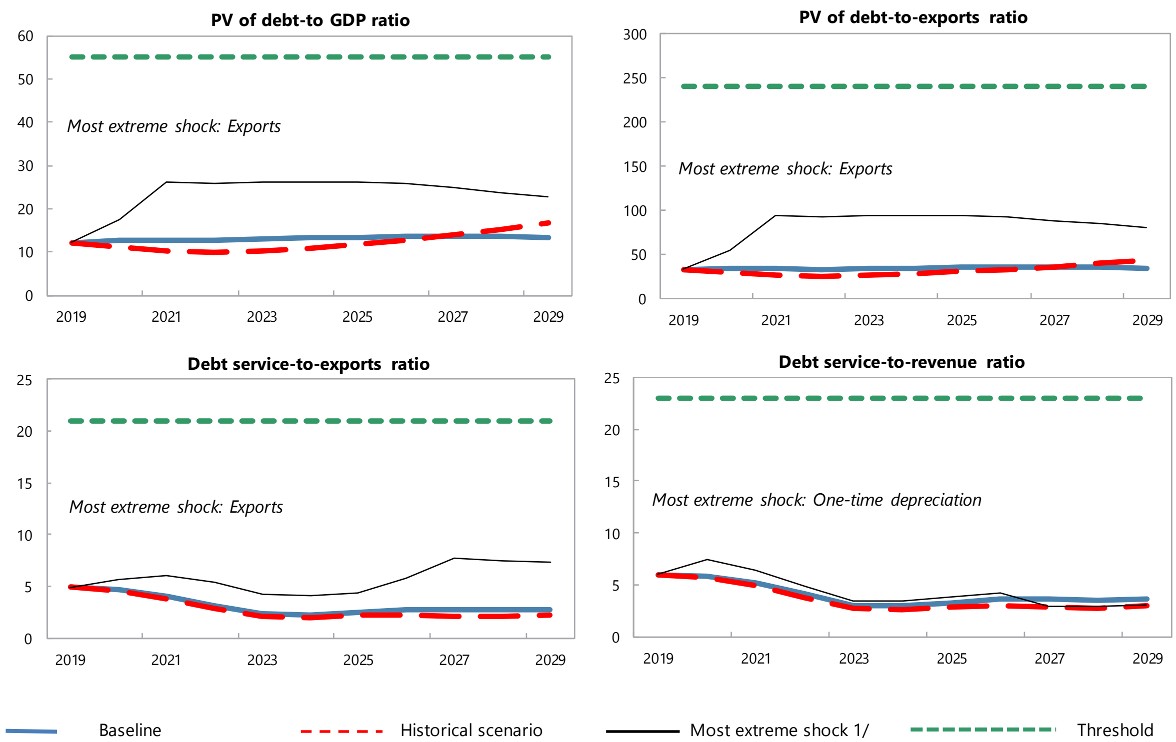
Sources: Country authorities; and staff estimates and projections.

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.

Figure 1. Moldova: Indicators of Public Guaranteed External Debt under Alternatives Scenarios, 2019–2029



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	n.a.	n.a.

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

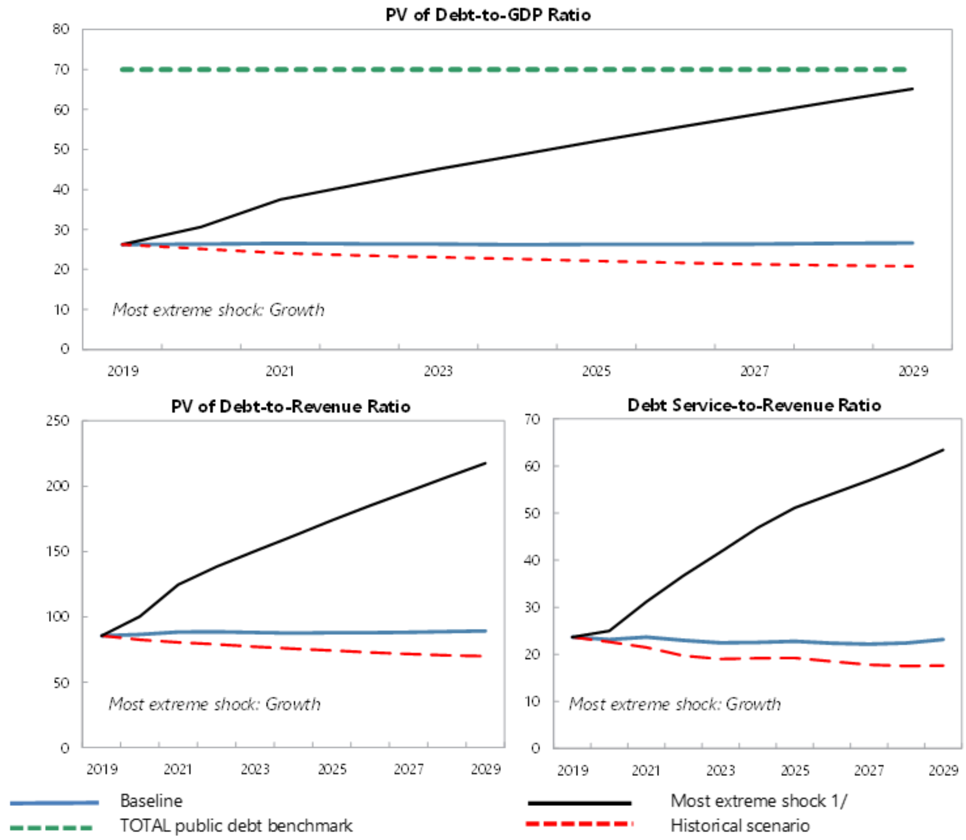
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5

* 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 2029. 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, 2019–2029



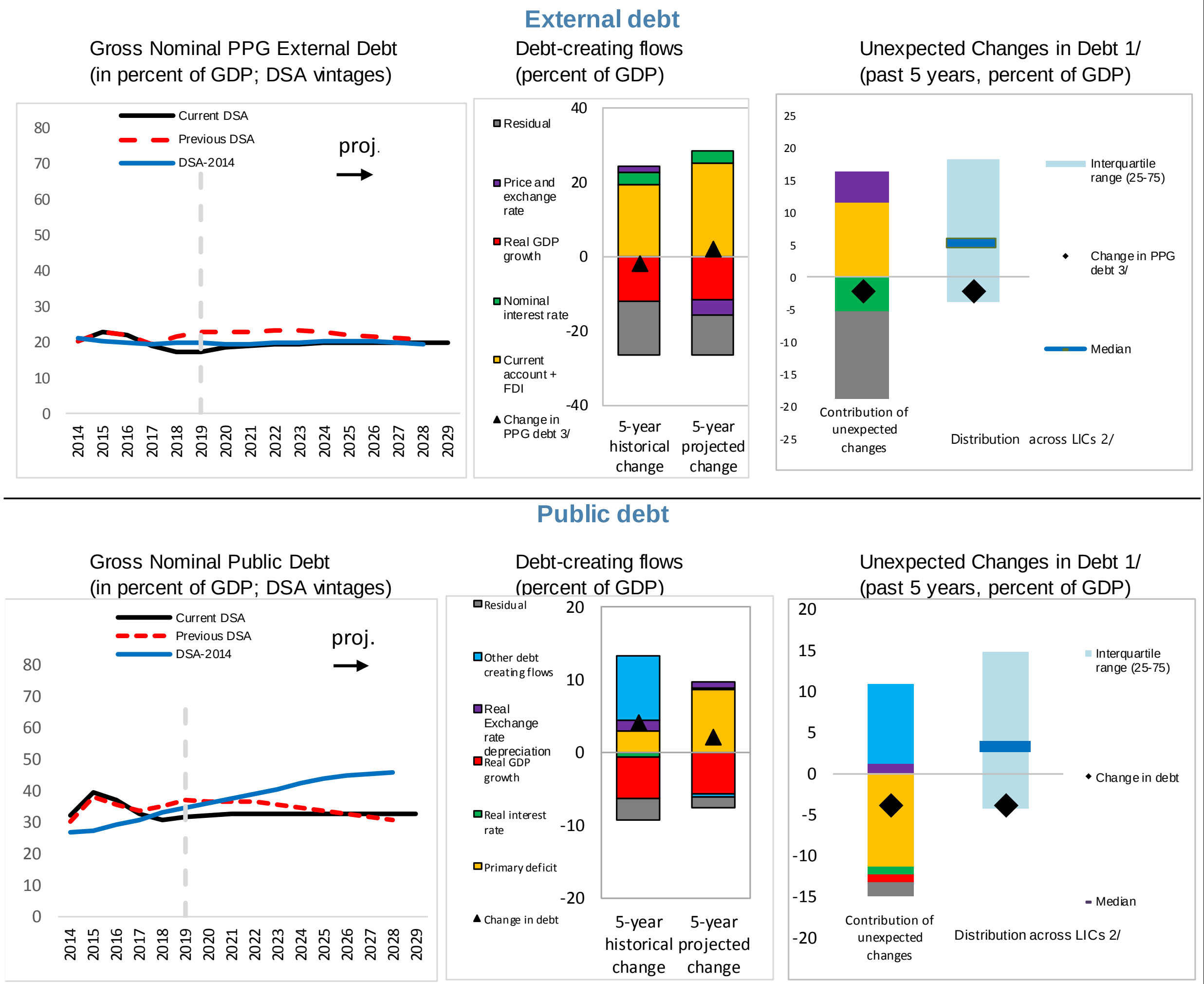
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	26%	26%
Domestic medium and long-term	32%	32%
Domestic short-term	42%	42%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.4%	2.4%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	1.9%	1.9%

* 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 2029. 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



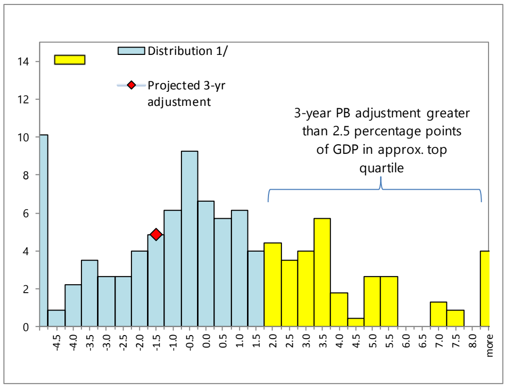
1/ Difference between anticipated and actual contributions on debt ratios.

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.

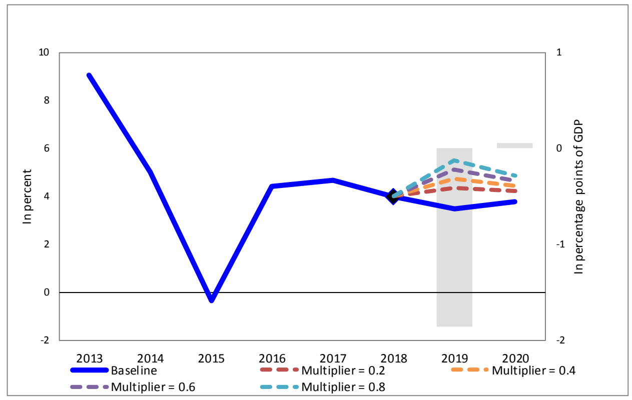
Figure 4. Moldova: Realism Tools

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



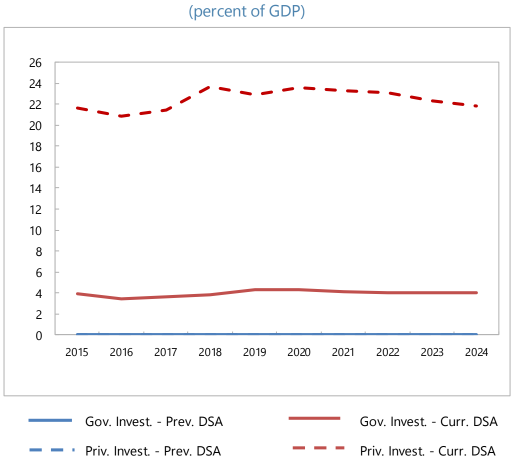
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

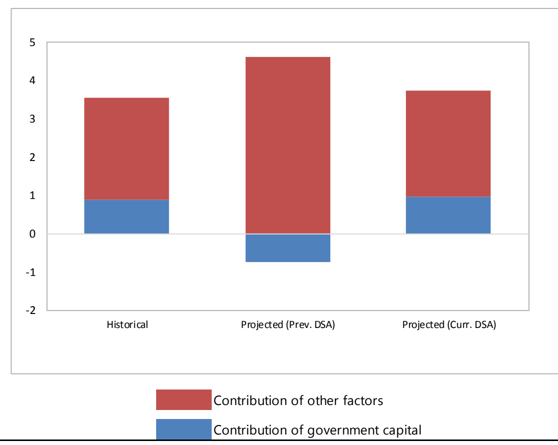


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



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



Statement by Richard Doornbosch, Alternate Executive Director for Republic of Moldova and Jesper Hanson, Advisor
September 20, 2019

On behalf of the Moldovan authorities, we would like to thank staff for their quick engagement with the authorities after the new government took office, for the constructive discussions during the mission, and for their insightful report.

The Moldovan government took office on June 8 and soon thereafter engaged with the Fund for discussions on the fourth and fifth review of the ECF/EFF. The agenda of the new government focuses on improving governance, fighting corruption and reducing poverty. These priorities align very well with the focus of the ECF/EFF and the government is strongly commitment to work towards a successful completion of the ECF/EFF. The government demonstrated their strong commitment to the program by implementing 6 prior actions, including measures to correct past policy slippages.

Economic Outlook

The Moldovan economy performs well. GDP growth is solid, estimated at 3.5 percent in 2019 and 3.8 percent in subsequent years. The labor market is strong, with increasing labor force participation, rising wages and unemployment projected to remain low at 3.0 percent. The recovery of the banking sector results in a return of credit growth after a prolonged contraction following the 2014 banking crisis. The strong wage growth and resumed credit growth, together with a fiscal impulse following fiscal slippages, contribute to a projected increase in inflation towards 7.5 percent by end-2019, but inflation is expected to stabilize at the target of 5 percent afterwards.

Fiscal policy

The government implemented four prior actions in the area of fiscal policy to correct for fiscal slippages, repair pre-election policy reversals and create space in the 2020 budget for social spending.

(1) **The government amended the 2019 Budget to target a 3 percent of GDP deficit.** Corrective actions were required as pre-election expansionary fiscal measures and shortfalls in EU grants had resulted in an increase in the fiscal deficit. The amended Budget corrects these fiscal slippages and targets a deficit of 3 percent of GDP in 2019, which is consistent with the augmented general government deficit ceiling under the program.

(2) **The government amended the 2018 Capital and Tax Amnesty Law and the tax code to fight tax evasion.** A ban on tax audits prior to 2018 in the Capital and Tax Amnesty Law severely reduced the ability of the State Tax Service to

exercise its investigative functions. The government showed its commitment to improving governance and fighting corruption with the reversal of this ban. The government also removed the MDL 500,000 deduction from the indirect method assessment of taxable income, meaning that discrepancies in taxable income below MDL 500,000 can also be taxed. Both prior actions help fight tax evasion.

(3) **The government legislated changes in the Tax and Customs Codes, taking effect in 2020, to create room for social spending.** Reducing poverty is a key priority of the government, in line with the floor on priority social spending in the program. The pre-election fiscal impulse reduced the room in the budget for social spending. To reverse this impulse, the authorities implemented 9 amendments to the Tax and Customs Codes. This required political perseverance: a number of the measures targeted specific interest groups and reversing such measures is politically difficult. One example is the reversal of the reduction in the VAT rate of HORECA. Box 1 in the Staff report is helpful as it provides a rationale for this reversal. The changes in the Tax and Customs Codes create room for priority social expenditures in the 2020 budget. The government not only wants to create sufficient room for social expenditures in the budget, but also wants to enhance the targeting and coverage of social assistance programs.

Going forward, the government will take measures to increase the efficiency of public expenditure, which will help improve the composition of the budget towards social and investment spending. Public and publicly guaranteed debt remains low at 31.5 percent of GDP in 2019. To structurally support growth and social outcomes while maintaining debt at a low level, the authorities want to increase the efficiency and medium-term orientation of the budget. They will reduce risks related to the government wage bill by developing a comprehensive staff registry and by adopting a plan to reduce the number of reference values. They will integrate the findings from the 2018 spending review of Higher Education and Vocational Training in the medium-term budgetary framework for 2021-2023. They are also planning to undertake a Public Investment Management Assessment.

Financial sector

The process of banking system reform and rehabilitation following the 2014 banking crisis has progressed significantly. The banking sector is in good shape, with strong capital and liquidity ratios, a significantly changed ownership structure and reductions in related party exposures. This is reflected in healthy credit growth. As prior actions, the authorities amended the NBM Act to prevent ELA to insolvent institutions, and the NBM adopted decisions to request the removal of unfit shareholders in two non-systemic banks, which was a structural benchmark for end-March. The structural benchmark to allow a systemic bank to exit temporary administration is the only remaining structural benchmark related to the banking system. This benchmark marks the completion of the banking sector reform agenda. It was reset from end-October 2018 to end-December 2019 and is the only benchmark from the third review that is still outstanding.

The authorities will make progress on the asset recovery of stolen proceeds from the 2014 bank fraud, and they will strengthen the AML/CFT framework. The authorities realize that the financial receipts of the asset recovery could be limited as it becomes increasingly difficult over time to recover stolen proceeds. But they are strongly committed to prosecute perpetrators with the help of international legal and forensic exports in order to uphold the rule of law. They will also strengthen the AML/CFT framework, including by adopting the Law on Sanctions for violations of ML/TF rules by end-2019 and by initiating a National ML/TF Risks Assessment. Progress on asset recovery and the AML/CFT framework are important elements of the broader financial sector reform agenda of the authorities.

The authorities remain vigilant to risks in the non-bank sector. The increase in financial intermediation by non-banks, in particular microfinance organizations, requires efforts to ensure an adequate regulatory framework. The authorities will therefore prohibit non-bank credit organizations from accepting public deposits, require reporting of new credit activity to credit bureaus, introduce limits on the cost of consumer credit and introduce a sanctioning regime. These measures will help maintain financial stability and strengthen consumer protection.

Monetary policy

The NBM targets an inflation rate of 5 percent and monetary policy stands ready to gradually adjust interest rates if needed to stem inflationary pressures. To strengthen the effectiveness of the inflation-targeting framework, the NBM will develop an FX intervention strategy that reduces the NBM’s market footprint, adhere to the policy rate as primary tool and recalibrate reserve requirements on domestic and foreign currency liabilities.

Towards the completion of the ECF/EFF

The authorities are committed to implementing the final set of five structural benchmarks. Implementation of these five benchmarks will pave the way for a successful completion of the program.

(1) In the fiscal sector: The government will propose a date and adopt an action plan for the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. This benchmark will help fight tax evasion.

(2) In the financial sector: The authorities will implement the three benchmarks discussed above - they will reduce risks stemming from non-bank credit organizations, the NBM will allow a systemic bank to exit temporary administration in an orderly manner and the NBM will develop an FX intervention strategy.

(3) In the energy sector: The authorities will adopt gas tariffs based on the existing methodology and on the purchase price of natural gas. This will increase transparency and predictability in the energy sector.

Going forward, the government intends to continue cooperating with the IMF to anchor its reform program. The authorities intend to start discussions with staff on a possible follow-up arrangement during the Annual Meetings. Such an arrangement could help guide their commitment to a more social and growth-friendly composition of the budget, for example through reforms of the pension system to ensure its long-term sustainability, public investment management reforms and improved reporting and management of risks related to SOEs and PPPs.