INTERNATIONAL MONETARY FUND

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REPUBLIC OF MOLDOVA

September 2022

FIRST REVIEWS UNDER THE EXTENDED CREDIT FACILITY, AND REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA AND INFLATION CONSULTATION CLAUSE—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF MOLDOVA

In the context of the First Reviews Under the Extended Credit Facility, and Requests for Modification of Performance Criteria and Inflation Consultation Clause, 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 21, 2022, following discussions that ended on August 10, 2022, with the officials of 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 8, 2022.
- A **Statement by the Executive Director** for Republic of Moldova.

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

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

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the first reviews under the ECF/EFF arrangements with Moldova, providing the country with access to SDR 20.65 million (about US$ 27 million).
- The impact of the war in Ukraine has yet to fully materialize, with the economy projected to stagnate in 2022 amid spillovers from the war, rising food and energy costs, and fragile confidence.
- Moldova's program is advancing governance reforms critical to increasing the country's resilience to shocks, while also providing additional resources to meet urgent socio-economic needs.

Washington, DC – September 21, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the first reviews under the 40-month Extended Credit Facility (ECF) and Extended Fund Facility (EFF) Arrangements[1] for the Republic of Moldova.[2] This allows for the immediate disbursement of SDR 20.65 million (about US$ 27 million), usable for budget support, bringing Moldova's total disbursements under the blended ECF/EFF arrangements to SDR 185.95 million (about US$ 242 million).

Spillovers from the war in Ukraine continue to weigh on Moldova's outlook. The economy is expected to stagnate in the near term, with inflation remaining high amid rising food and energy prices. Despite signs of resilience, the current account and fiscal deficits are expected to widen significantly in the current year. Risks to the outlook remain exceptionally high, including those related to the regional energy crisis. Moldova's program implementation remains strong despite the difficult environment, with completion of important program commitments in the areas of fiscal and financial governance, as well as rule of law and anti-corruption.

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

[2] The 40-month ECF/EFF arrangements were approved in December 2021 (Press Release) and augmented in May 2022 to increase total access under the arrangements to SDR 594.26 million (Press Release).

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

“Multiple challenges continue to weigh heavily on Moldova, including spillovers from Russia’s war in Ukraine, the negative impact of soaring inflation on purchasing power, and energy security concerns. As a result, Moldova’s economic outlook remains subject to exceptionally high domestic and external risks.

“Despite these challenges, the authorities remain firmly committed to the Fund-supported program, which aims to support the vulnerable, while advancing governance reforms and addressing developmental needs to create conditions for sustainable and inclusive growth. They have successfully completed structural commitments on fiscal governance, financial sector oversight, and on strengthening anti-corruption legislation, and even included additional conditionality to support the fiscal structural agenda.

“Maintaining this strong policy momentum will be critical to secure additional grant and concessional financing from donors needed to finance one-off spending pressures, retain adequate fiscal buffers, and reduce reliance on short-term domestic financing. Continued reform implementation and contingency planning will also help Moldova create a solid foundation for strong and inclusive growth.

“The authorities’ near-term efforts remain appropriately focused on curbing soaring inflation, while protecting the most vulnerable from escalating energy and food costs. Maintaining an appropriate policy mix will be critical going forward, given persistent inflationary pressures, budget financing constraints, and exceptional downside risks around the baseline. Furthermore, concerted efforts are needed to improve spending efficiency, foster budget credibility, mobilize domestic revenue, and advance energy and SOE reforms.

“Safeguarding the independence of the National Bank of Moldova is essential to reinforce its credibility and strengthen policy effectiveness, particularly given the current highly uncertain environment. In this regard, prompt adoption of the legislation to reinforce the institutional autonomy of the National Bank of Moldova by end-October is critical. Strengthening financial supervision and regulation also remains important, especially given vulnerabilities to the non-bank sector. “

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

September 8, 2022

FIRST REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, AND REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA AND INFLATION CONSULTATION CLAUSE

EXECUTIVE SUMMARY

Moldova's economy is projected to stagnate in 2022 amid spillovers from Russia's invasion of Ukraine. The war in Ukraine continues to weigh heavily on Moldova, although some initial pressures have subsided. Bank deposit net withdrawals came to an end and are now steadily being replenished. The leu depreciated by about 8 percent so far while pressures on foreign reserves have eased. About 550,000 refugees fleeing the war (representing more than 20 percent of the Moldovan population) have transited through Moldova, with about a fifth remaining in the country. Driven by rising food and energy prices, inflation accelerated further above the target band.

The program remains on track with strong program ownership, but risks remain. The authorities are firmly committed to the reforms under the program, despite the difficult environment. Fiscal performance, monetary policy, and external sector developments were broadly in line with program expectations. All quantitative performance criteria for end-June were met. The prior action on the adoption of the supplementary budget for 2022 was met. Of the five end-June structural benchmarks (SBs): three were met, one was implemented with a delay, and one is proposed to be reset to end-October 2022. One of the end-December SBs on strengthening anti-corruption institutions was also met, well in advance. The authorities request modification of the inflation consultation clause due to persistent external shocks, as well as modification of the performance criteria on the cash deficit of the general government and indicative targets, in line with the updated projections and agreed policies. The outlook remains subject to exceptionally high domestic and external risks, particularly those related to spillovers from the war in Ukraine and the regional energy crisis.

Policies remain focused on supporting the vulnerable, governance reforms, and on addressing developmental needs to create conditions for sustainable and inclusive growth. In consultation with staff, the authorities prepared a second supplementary budget to address the urgent need to protect the most vulnerable from rising energy costs and soaring inflation. Efforts to strengthen revenue and spending outcomes while advancing energy and SOE reforms continue. The NBM monetary policy response to

ensure price stability remains robust, fully in line with the NBM inflation targeting framework. Improved regulatory and macroprudential toolkits should contain financial stability risks. Reforms to bolster the rule of law, reduce corruption, and strengthen fiscal and financial governance, should facilitate external financing, and create a solid foundation for strong and inclusive growth.

Staff supports the completion of the first review and the request for modification of performance criteria, inflation targets and setting end-December 2023 targets. Based on recent performance and the authorities' commitments, staff supports the completion of this review, which would make available to Moldova the equivalent of SDR 20.65 million (11.97 percent of quota).

Approved By
Laura Papi (EUR) and Maria Gonzalez (SPR)

Discussions were held remotely and in person during July 19–August 10, 2022. The mission met with Prime Minister Gavrilița, Deputy Prime Minister Spinu, Minister of Finance Budianschi, Minister of Economy Gaibu, Minister of Justice Litvinenco, Minister of Labor and Social Protection Spătari, Governor of the National Bank of Moldova Armaşu, Chair of the National Commission for Financial Markets Cozlovschi, General Director of the Public Property Agency Cozonac and other senior officials and representatives of financial institutions, and international organizations. The mission team comprised R. Atoyan (Head), A. Fouejieu, M. Marinkov, M. Patnam, F. Toscani (all EUR), C. Gomez Osorio (FAD), K. Kao (LEG), B. Nandwa (SPR), J. Podpiera (MCM), and R. Chawani (resident representative). L. Herrera Prada and C. Piatakovas (both EUR) and staff from the local office assisted the mission.

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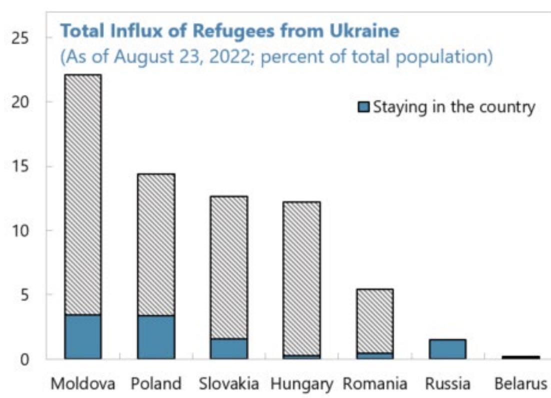
CONTEXT AND RECENT ECONOMIC DEVELOPMENTS

1. **The 2021 ECF/EFF program was augmented in May 2022 to help catalyze external financing, protect social cohesion, and advance crucial reforms.** Total access under the blended 40-month ECF/EFF arrangements was increased by US$260 million (SDR 194.26 million, 112.6 percent of quota) to US$796 million (SDR 594.26 million, 344.5 percent of quota). Conclusion of an ad hoc review in May made US$145 million (SDR 108.15 million, 62.7 percent of quota) immediately available to Moldova. The program embeds structural reforms that aim to improve the rule of law and the anti-corruption framework, as well as strengthen fiscal and financial governance.

2. **The war in Ukraine and the impact of sanctions on Russia and Belarus continue to impact Moldova.** A recent string of security incidents in Moldova's breakaway region of Transnistria has led to growing concerns about Moldova being drawn into the war. Moreover, hardships posed by high energy and food prices and the significant costs of accommodating refugees risk undermining Moldova's fragile social fabric and delicate political balance. Against this backdrop, Moldova officially applied for EU membership in March, and the European Council granted Moldova candidate status for EU accession on June 23, contingent on specific steps to be taken in areas of the rule of law, anti-corruption, eliminating the excessive influence of vested interests, and economic reforms.

3. **While the impact of the war remains to fully materialize, initial war-induced pressures have subsided somewhat.** Reflecting deteriorating confidence effects, the Moldovan leu depreciated by about 8 percent since the beginning of the war, although the National Bank of Moldova (NBM) has recently managed to partially rebuild FX reserves. Bank deposit net withdrawals came to an end by mid-March and deposits are now steadily being replenished. Five months into the war, more than 550,000 refugees fleeing the war (more than 20 percent of the Moldovan population) have transited through Moldova, with about a fifth remaining in the country.



Source: UNHCR, Eurostat, and staff calculations

4. **Despite signs of resilience in the first quarter, growth is projected to stagnate in 2022 as the impact of the war is likely to be prolonged.** Real GDP grew by 1.1 percent in the first quarter (y/y), a q/q contraction of 6.4 percent. Activity in 2022Q1 was primarily supported by higher net exports, government consumption and, to a lesser extent, private consumption (Figure 1). Investment contributed negatively to growth. From the production side, retail trade and financial services supported growth in 2022Q1, while manufacturing, construction and real estate transactions had a negative impact on 2022Q1 growth. Available high-frequency indicators of

economic activity point to a modest recovery in April-June. The unemployment rate increased moderately to 3 percent in 2022Q1 (from 2.6 percent in 2021Q4). Following an exceptionally good harvest in 2021, agricultural production is expected to be more muted in 2022, held back by less favorable meteorological conditions and constrained supply and higher cost of fertilizers and fuel. On the other hand, exports appear to be more resilient to trade disruptions in the region than originally expected, and Moldova's service sector is benefiting from the reorientation of regional trade flows through its transport infrastructure. On balance, these developments call for relatively minor adjustments of the staff forecast at the time of the ad-hoc review in May 2022. However, CPI inflation and GDP deflator are expected to be significantly higher than previously expected, reflecting realized and expected trajectories of energy and food prices.

Sources: National Bureau of Statistics and IMF staff calculations.

OUTLOOK AND RISKS

5. Spillovers from the war in Ukraine are expected to weigh heavily on the Moldovan economy. The economy is expected to stagnate in the near term, with inflation accelerating further amid widening of the current account and fiscal deficits.

- **Real GDP growth** is projected at 0 percent in 2022, driven by a contraction in investment and a slowdown in private consumption growth amid erosion of income purchasing power due to high inflation, followed by continued subdued growth of 2.3 percent in 2023, supported by a recovery of investment and net exports. Growth is expected to recover over the medium term, supported by strong payoffs from reforms that promote faster capital accumulation and productivity. However, real economy scarring is estimated to be significant over the medium term, reflecting protracted war-induced disruptions, with real GDP standing at about 7 percent below pre-war forecast in 2026.

- **Average annual inflation** is expected to reach 28.5 percent in 2022, driven by further increases in food and energy prices, depreciation pressures, and energy tariff adjustments. Inflation is likely to peak around October-November before easing towards the end of the year and reaching 13.8 percent in 2023, under the assumption that commodity prices should begin to partially normalize starting from the fourth quarter of 2022. Pressures from food prices are also expected to ease as trade disruptions abate and alternative supply sources are identified. Nevertheless, staff projects inflation to remain well above the NBM's target band until end-2023.

- **The current account deficit** is expected to widen to 12.8 percent of GDP this year, reflecting weaker exports and higher imports (the latter driven by energy price increases). Over the medium term, the current account deficit should narrow closer to its pre-pandemic average, to 8.5 percent of GDP.

- **Debt Sustainability**. Overall risk of debt distress is assessed as moderate. Public debt is considered sustainable with strong debt carrying capacity, while the external debt remains at low risk of debt distress.[1]

6. Risks around the baseline remain exceptionally high and firmly tilted to the downside. A sharper-than-anticipated increase in energy prices or disruptions in energy supply continue to be key risks. While recent natural gas prices have been marginally lower than expected at the time of the ad hoc review in May 2022, Moldova's energy security remains at risk of an interruption or reduction in natural gas or electricity deliveries, given the country's dependance on supply from Russia and the breakaway region of Transnistria. Food security and affordability risks may also amplify as the war persists, given significant processed food imports from Ukraine. Should inflation pressures increase, and confidence deteriorate further (e.g., due to the war moving closer to the Moldovan border), leading to further MDL depreciation and system-wide deposit runs, policy trade-offs may be more challenging. An escalation of the war would exacerbate refugee inflows to Moldova, putting additional pressures on the government budget while financing conditions are tightening. Moldova's fragile social and political fabrics may also be tested by social unrest over rising costs of living and political discontent over policy decisions.

7. The authorities shared the staff's assessment of the macroeconomic outlook. They remain concerned about Moldova's high exposure to spillovers from the war in Ukraine given geographic location, trade and financial linkages, and energy import dependence. They see the negative impact of soaring inflation on purchasing power, energy security concerns, and the impact of adverse drought conditions on agricultural production as key risks for Moldova's economy at the current juncture. The authorities assess these risks to be substantial and largely tied to the future evolution of the war and global energy prices. As a result, they have set up contingency plans for extreme events (Table 1), which continue to be further enhanced with staff support.

[1] See Debt Sustainability Analysis, IMF Country Report 2022/140

Table 1. Moldova: Contingency Planning

Contingency measures	Rationale	Adequacy	Pressure points and risks
Fiscal			
Flexible emergency funds	To respond quickly to potential crises	Quite significant, at 1.1 percent of GDP	Additional measures to support the economy and the most vulnerable from rising energy and food prices; sharper-than-anticipated increases in energy prices and/or interruptions in energy supply
Cut non-priority expenditures, reduce capex	To support priority spending needs	Potentially sizeable (see text table on additional fiscal space)	
Energy			
EBRD credit line	For gas storage and emergency purchases	EUR 300 million (at current prices, can be used to purchase gas for just under 1 winter month)	Sharper-than-anticipated increases in energy prices and/or interruptions in energy supply
Energy rationing	In case alternative energy supplies in the region become capacity constrained or significantly more expensive	Consistent with IMF staff advice	
Additional changes in gas tariffs	Larger-than-expected import price increases will be passed on to consumers, while supporting those most vulnerable through targeted subsidy scheme		
EU's Energy Platform	To reduce gas demand, enable efficient use of infrastructure, address infrastructure bottlenecks, and diversify gas supply	Consistent with IMF staff advice to diversify gas supply	
Energocom recapitalization	To finance emergency gas supply and strategic reserve build-up in order to facilitate diversification of gas supply		
Financial			
Toolkit to address liquidity pressures	To ease liquidity pressures and maintain banking system liquidity	The authorities have already deployed MDL standing facilities and FX swaps, FX interventions, and ensured continued supply of FX banknotes; they also plan to upgrade and activate the ELA framework and undertake other contingency measures to address the buildup of liquidity risk	Renewed acceleration of deposit withdrawals and/or degraded confidence by heightened risk aversion over adverse spillovers from the war in Ukraine
Necessary contingency measures, in case of unprecedented uncertainties	To ease external and liquidity pressures, should severe downside risks materialize and endanger macroeconomic and financial stability	A contingency plan has been prepared and discussed with IMF staff; the NBM has experience using these measures; in consultation with IMF staff, these measures would be used in combination with a broader macroeconomic adjustment package	
External			
FX reserves buffer	Safeguard against sudden external adjustment	The reserve buffer is broadly adequate, estimated at 4.5 months of imports in 2022	Potential intensification of spillovers from the war in Ukraine

PROGRAM PERFORMANCE

8. **Program performance was strong**, based on end-June performance criteria and structural conditionality (Memorandum of Economic and Financial Policies, MEFP Tables 1 and 2).

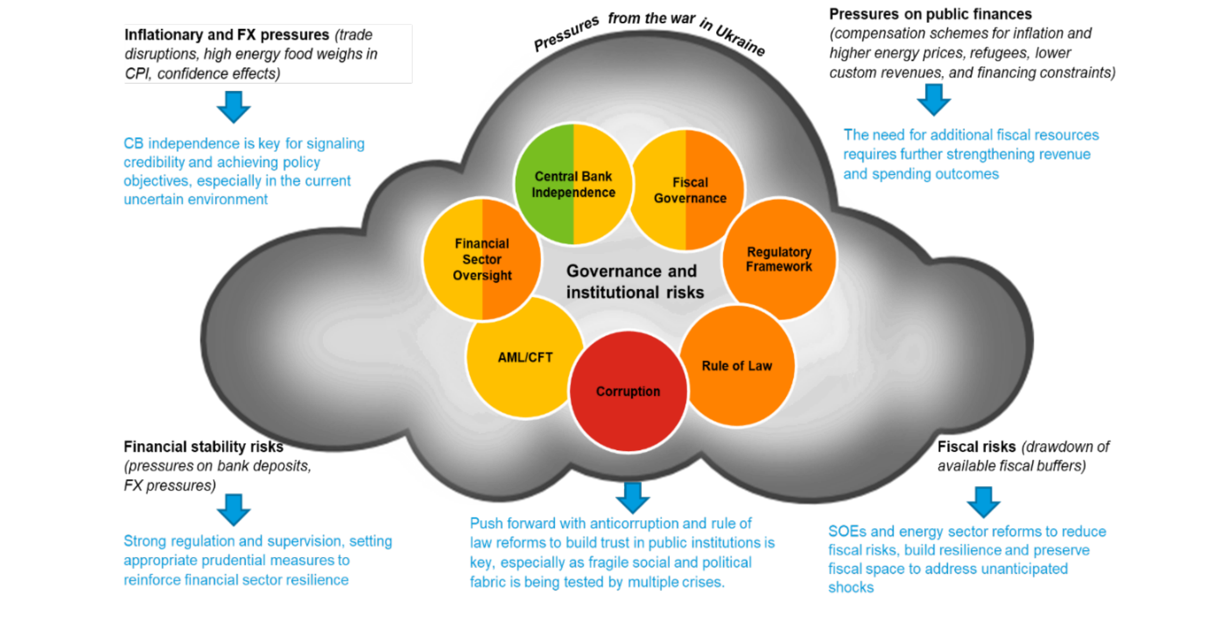
- **Quantitative performance criteria (QPCs) and indicative targets (ITs):** All the QPCs and ITs for end-June 2022 were met. The continuous performance criterion on external payment arrears has also been met.

- **Inflation consultation band**: Inflation surged to 31.8 percent (y/y) in June driven by energy and food price increases but remained within the outer band of the inflation consultation band.

- **Structural conditionality**: Three of the five end-June structural benchmarks (SB) were met: (i) the authorities published the comprehensive tax expenditure analysis; (ii) the coverage of the comprehensive IT-based staff registry was expanded to all central government employees; and (iii) the integrated taxpayer register was operationalized in June 2022. The amendments to the Emergency Liquidity Assistance (ELA) regulation and the internal ELA procedures were adopted in August. The end-June SB on strengthening the provisions for the institutional autonomy of the NBM was not met and is proposed to be reset to end-October 2022 (¶31). The end-December 2022 anti-corruption SB was met well-ahead of schedule, with the appointment of the head of the Anti-Prosecution Office (APO) in June.

POLICY DISCUSSIONS

9. **Multiple crises faced by Moldova emphasize the need to push forward with governance and institutional reform priorities identified under the ECF/EFF arrangements approved in December 2021.** The spillovers from the war have further underscored the relevance of these structural reforms, which are critical to increase Moldova's resilience to shocks. The war-induced pressures on public finances call for urgent efforts to strengthen revenue and spending outcomes, while reforms to reduce fiscal risks from SOEs and the energy sector will help preserve fiscal buffers. Strong financial sector regulation and supervision, combined with appropriate prudential framework and well-targeted measures, will further strengthen resilience to financial stability risks. In the current highly uncertain environment, central bank independence is key for signaling credibility and achieving policy objectives. The multiple crises are also putting Moldova's social and political fabric to the test, calling for reforms to strengthen trust in public institutions.



Source: IMF Staff, Moldova Governance Diagnostic, and Moldova 2021 Article IV Staff Report.
Note: Colors reflect relative priorities within Moldova, not an assessment relative to other countries.
Red = systemic, Orange = weak/ineffective, Yellow/Orange = insufficient, Yellow = concentrated weakness, Green/Yellow = de facto weakness, Green = no weakness.

A. Fiscal and Energy Sector Policies

Background

10. Fiscal revenues have been robust, likely reflecting inflationary pressures and strong performance of corporate income taxes, while the investment budget was under-executed. The fiscal deficit contracted to 1.2 percent of GDP in 2022H1. Revenue growth exceeded expenditure growth, boosted by corporate income tax collection given the strong 2021 end-year commercial performances and an inflationary effect on VAT. Excises grew only moderately (8 percent) in H1 due to trade disruptions caused by the war in Ukraine. On the expenditure side, the acceleration was largely driven by current spending, with transfers (up 30 percent), goods and services (14.5 percent), and wages (12 percent) largely reflecting policies to mitigate the unfolding crises. The trend of under-execution of the investment budget continues and H1 disbursement was below 1 percent of GDP.

11. Risks on expenditure are high and likely to surpass the positive developments on the revenue side. Uncertainty related to spiraling energy and food prices and inflation more broadly, and their impact on purchasing power requires additional temporary fiscal support for households and businesses beyond what was envisaged in the first supplementary budget in May. The persistent inflow of refugees, due to a further escalation of the war, could also put further strain on government spending to continue providing humanitarian assistance. With trade-related revenues representing about 40 percent of total revenues in 2021, downside risks to revenue projections due to disruptions of trade remain elevated. Such an uncertain outlook, together with sluggish appetite for government securities, implies that additional external financing is needed in 2023 to secure the necessary and appropriate response to the crisis while also pursuing critical developmental objectives.

12. Diversification of energy supplies and contingency planning remain key focus of the authorities. The authorities are executing their strategy to adjust natural gas and electricity tariffs as import prices continue to be extremely volatile (Box 1).

- Electricity supply has become somewhat less of a concern, with short-term contracts with both Transnistria and Ukraine in place. Supplies from Romania are also an option, albeit at higher prices and subject to transmission infrastructure constraints.

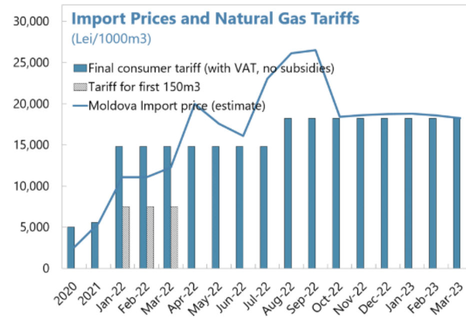
- Addressing a longstanding issue, in August, the Moldovan authorities have signed a contract with a Norwegian and a British company to conduct an audit of Moldovagaz's historic debt to Gazprom. This is an important step ahead of a renegotiation of natural gas delivery volumes with Gazprom after the summer (the price formula is fixed under the current contract). In an adverse gas supply scenario, natural gas supplies from Azerbaijan and Romania could offer an alternative to Russian supplies. National contingency planning is also advancing with concrete rationing plans in place. The EUR 300 million EBRD credit line for gas storage and emergency purchases was approved in June and is intended to be used to store gas in Romania. Moldova is also part of the EU's Energy Platform as a member of both the South-Eastern Europe and Central-Eastern Europe task forces. An action plans lays out regional cooperation on the potential to reduce gas demand, efficient use of infrastructure and addressing infrastructure bottlenecks, and options to diversify away from Russian gas. The European Commission will support these efforts.

Policies

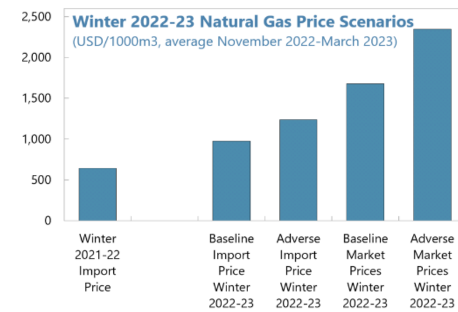
13. Higher-than-expected revenue collection and external grants warrant the approval of a *second supplementary budget* to effectively address hardship posed by high food and energy prices on the vulnerable. The authorities approved the 2022 supplementary budget envisaging a deficit of 6.2 percent of GDP in 2022 (**prior action**) to provide additional targeted support through (Text Table 1): (i) a one-off payment to pensioners, capped at a threshold, covering 87 percent of the current beneficiaries; (ii) a structural pay increase for public sector employees in the two lowest salary segments and a one-time payment for some civil servants, (iii) an increase in the allocation to the energy vulnerability fund that provides targeted support for rising energy costs, and (iv) additional allocations to social programs, such as, subsidized wood for heating, as well as heating and child allowances.

Box 1. Moldova: Energy Prices and Mechanism to Address Energy Poverty

The Moldovan authorities are continuing to adjust tariffs to reflect surging energy import prices. In response to increased import prices, household natural gas tariffs have been adjusted in three steps over the past 12 months—in November 2021, January 2022, and most recently in August 2022—by a total of over 350 percent. Electricity tariffs were increased in two steps (January and June 2022) by over 60 percent.



Sources: Bloomberg, IMF Staff calculations.

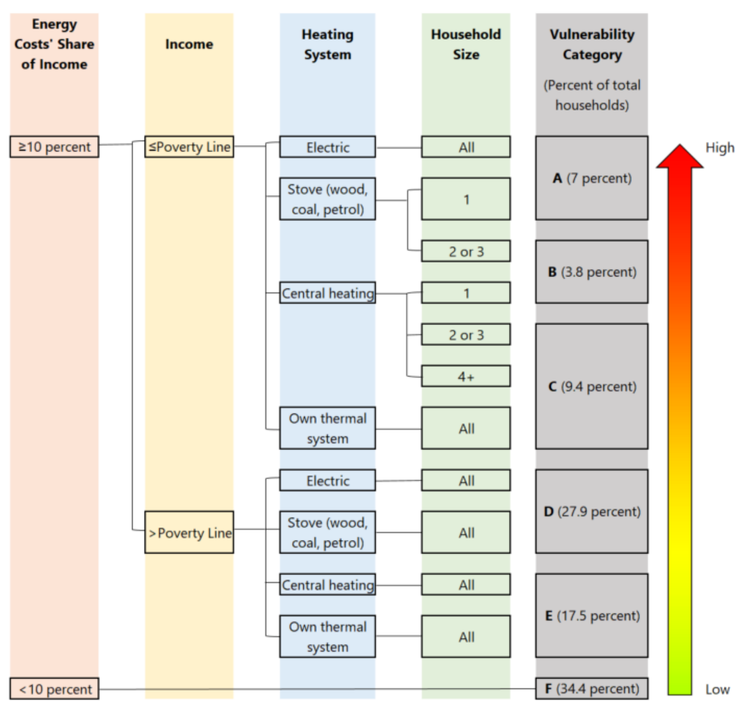


Sources: Bloomberg, IMF Staff calculations.

Uncertainty around natural gas import prices is extremely high, complicating the outlook. For electricity, tariffs are now well-aligned with costs (supply currently comes from Transnistria and Ukraine). For natural gas, European wholesale prices—to which Moldovan import prices are partly indexed—have been very volatile and stand at over five times the level from one year ago. This makes planning for the natural gas sector difficult, and import prices in Q3 are again above tariffs, despite the recent adjustment. Import volumes over the summer are relatively small, limiting the impact of the price volatility during this period to some degree. The outlook for the crucial winter period is even more uncertain, and import prices in an adverse scenario—especially if deliveries from Russia were interrupted and Moldova had to pay market prices for all imports—could be as much as double the already high import prices under the baseline.

To combat energy poverty in a targeted and fiscally sustainable way, a new energy support scheme is being launched in time for the coming winter heating season. Given the possibility of extreme energy costs, devising a well-targeted energy support scheme to replace the transparent but relatively broad subsidy used during the 2021–22 winter is a key priority. The authorities plan to compensate vulnerable energy consumers towards paying their energy bills during the heating season. Households will be classified into vulnerability categories according to the following variables: (i) the share of energy costs in income, (ii) income, (iii) the type of heating system, and (iv) household size. This results in six vulnerability groups, ranging from A (the highest energy vulnerability level) to F (the lowest energy vulnerability level). Compensation will be progressively higher for more vulnerable consumers, while the least vulnerable consumers (group F) will not be compensated under the scheme.

Energy Support Scheme - Vulnerability Segmentation



Text Table 1. Moldova: Fiscal Policy Measures, 2022–23

Measures (percent of GDP)	Supplementary Budget 2022	Policy Priorities 1/ 2023	Temporary	Structural	Targeted
Social protection					
- A payment to pensioners (1,500 lei for pensioners receiving 5,000 lei or less)	0.4	...	✓		✓
- Increase in pensions in line with the current inflation-indexation formula	...	1.1		✓	
Social assistance					
- Additional allocations to social programs (school meal programs, heating and child allowances)	0.1	0.2	✓		✓
- Scaling up the Ajutor Social program	...	0.1		✓	✓
- Subsidized wood for heating	0.02	...	✓		✓
Wages					
- Pay increase for civil servants in the two lowest salary segments (changes to reference values)	0.1	0.3		✓	✓
- One-time payment for some civil servants	0.3	...	✓		
- Additional allowances for civil servants (housing and transport)	0.01	0.04	✓		
Energy					
- Additional allocation to the Vulnerability Fund, targeted energy poverty reduction scheme	0.2	0.5		✓	✓
- Emergency contingency funds	0.2	0.2	✓		
Other					
- Road fund (additional allocation)	0.1		✓		
- Fund for loans at subsidized interest rates	0.1	...	✓		
Total	**1.41**	**2.45**			

1/ Subject to discussion during the Second Review of the ECF/EFF.

14. **Fiscal policy priorities for 2023 will focus on structural changes to improve the impact of social assistance programs, addressing capacity constraints in the civil service, and securing external grants to meet Moldova's financing needs.** The authorities plan to: (i) increase pensions in line with the current inflation-indexation formula, and implement the Silver Fund program that will increase benefits to a small group of older pensioners; (ii) scale up social assistance (school meals and heating and child allowances) as well as revisit average benefits, expand eligibility, or apply alternative targeting methods to the Ajutor Social program; (iii) gradually increase public sector wages to mitigate the purchasing power erosion and attract and retain qualified staff; and (iv) continue to implement the targeted energy poverty reduction scheme. Given the currently identified financing sources (¶32, Text Table 2), the authorities plan to target a deficit of 6 percent of GDP in 2023 to ensure support for economic recovery. However, they stressed that risks around the baseline are exceptionally high and firmly tilted to the downside and could materialize in the near term (¶6, 11). Further temporary spending needs may emerge, including, inter alia, to extend the energy poverty reduction scheme to cover the full four months of the winter season. The authorities are therefore seeking additional grant financing from development partners, to help attend these additional one-off pressures. In addition, further concessional financing would reduce reliance on short-term domestic financing. In this context, and to retain adequate fiscal buffers, the authorities plan to seek additional external financial support of at least MDL 2.5–3.5 billion (0.8–1.2 percent of GDP) in the form of grants and concessional loans. Staff supported the authorities' efforts to identify additional concessional financing as part of a well-thought-out contingency plan, while underscoring the critical importance of preserving fiscal sustainability. Staff also stressed that any

eventual measures underpinning a larger fiscal spending envelope should be temporary, targeted, and transparent. More extensive discussions on emerging needs will be held with the authorities at the time of the next program review as risks materialize, based on an updated macroframework and debt sustainability analysis.

15. In provisioning for downside risks, the authorities highlighted the importance of contingency planning. If further shocks materialize and additional support for vulnerable groups is required, the authorities plan to reprioritize spending within the budget and reduce capital expenditures to support priority spending needs. An emergency fund contingency of 1.1 percent of GDP has been included in the 2022 supplementary budget.

16. The authorities remain committed to a fiscal structural reform agenda that supports sustainable development (MEFP, ¶7–¶9). They pointed to good progress on end-June 2022 SBs. Building on progress in tax expenditures (Box 2), the authorities agreed to institutionalize tax expenditure reviews to be part of the annual state budget planning process (**new end-March 2023 SB**, MEFP ¶7 and Table 2). Future reforms could fall in the areas for improvement identified in the recent PEFA assessment for Moldova (Box 3).

17. The authorities reiterated their strong commitment to preserving debt sustainability, which remains a key anchor to the program. The strong ownership and commitment to program objectives underpins a medium-term fiscal policy stance which sees public debt peak at 41.4 percent of GDP in 2024 before declining thereafter, in-line with the program debt anchor to safeguard fiscal sustainability and space to respond to future shocks (MEFP ¶6).

Box 2. Moldova: Tax Expenditure Analysis Review (TEAR)

With the support of IMF technical assistance, Moldova has produced a comprehensive review and quantification of its tax expenditures (TE). Tax instruments reviewed include personal income tax (PIT), business income tax (BIT), and value added tax (VAT). The aim of this work is to institutionalize the regular reporting of TE and, where feasible, rationalize the scope of TE to mobilize additional resources. Establishing the inventory of TEs, estimating their forgone revenues, monitoring their implementation, and evaluating their cost-effectiveness ex-post, creates a powerful feedback loop if future revenue-raising options need to be identified. Alternatively, it could inform future base broadening initiatives with accompanying downward tax rate adjustment if revenue neutrality is pursued. Consequently, establishing the practice of regularly publishing a TEAR should improve tax policy design in Moldova.

Box 2. Moldova: Tax Expenditure Analysis Review (TEAR) (concluded)

The total estimated TEs for PIT, BIT and VAT are significant, at around 3.6 percent of GDP for 2022. For that year and for those three tax instruments, 83 tax expenditures were identified and the forgone revenues for 48 of them were estimated (summarized in text table). The largest size TEs account for more than 60 percent of total TEs in 2022. These include tax exemption of state security payments and state subsidies (PIT); tax exemption of income from international grants for research and development, and from special funds and grants approved by the government (BIT); 8 percent reduced rate for agricultural products (VAT); zero-rating of electricity for residential customers (VAT); exempting the supply of educational services (VAT); and exempting the supply of medical services and associated goods (VAT).

There is scope to enhance the work on costing of forgone revenues in Moldova. Going forward, several other tax instruments could be included in the TE analysis and reporting, including excises, customs duties, and real estate taxes. In the future, the TEAR should include a ranking of costings of individual TEs and move towards some basic evaluation of TEs.

Moldova: Tax Expenditure Estimates, 2018-2022

	2018	2019	2020	2021	2022
	in million MDL				
Personal Income Tax	**765**	**1,391**	**1,568**	**1,780**	**1,956**
Exemption	765	1,390	1,371	1,554	1,708
Deduction	-	1	6	9	10
Allowance	-	-	192	217	238
Deferral	-	-	-	-	-
Rate reduction	-	-	-	-	-
Credit	-	-	-	-	-
Business Income Tax	761	763	728	841	936
Exemption	525	526	502	580	646
Deduction	2	2	2	2	2
Allowance	13	13	13	15	16
Deferral	-	-	-	-	-
Rate reduction	221	221	211	244	271
Credit	-	-	-	-	-
Value Added Tax	4,291	4,761	4,586	5,673	6,321
Zero rated items	499	547	532	648	714
Exempt items	2,233	2,457	2,384	2,906	3,210
Reduced rate items	1,558	1,757	1,670	2,118	2,397
Total Tax Expenditures	**5,817**	**6,915**	**6,882**	**8,293**	**9,213**
Percent of GDP	***3.0***	***3.3***	***3.4***	***3.6***	***3.6***

Box 3. Moldova: Public Expenditure and Financial Accountability (PEFA) Assessment

The 2022 PEFA assessment for Moldova provides an objective diagnostic of the quality of public financial management (PFM) systems.[1] *It aims to assess the contribution of processes and institutions towards achieving desirable budget outcomes, aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. Below are the areas identified as strengths and those requiring future reforms.*

Strengths

Fiscal Discipline. The quality of revenue projections improved over time. The budget is approved before the beginning of the next year and in-year budget reports are comprehensive and regularly produced and published. The budget classification improved with the introduction of a new GFS 2001 compliant Chart of Accounts. Despite political disruptions and the impact of the pandemic, the government managed to keep effective control of the budget, reduce tax arrears, and preserve public debt sustainability. The Ministry of Finance initiated the development of the national public sector accounting standards and took steps to improve the legislative framework in the area of public procurement and e-procurement.

Strategic Allocation of Resources. The public has access to comprehensive budget information. The integration of payroll and personnel information ensured a more comprehensive IT system. The effectiveness of tax appeals and compliance measures in tax collection improved.

Efficient use of resources for service delivery. Payroll controls have been enhanced through comprehensive and regular payroll audits. Internal controls on non-salary expenditures have been strengthened by the Treasury through its new IT systems. An independent procurement complaints agency was created and is fully functional.

Box 3. Moldova: Public Expenditure and Financial Accountability (PEFA) Assessment (concluded)

Areas for future reforms

Budget reliability. On the expenditure side, there is significant variance in the composition of expenditure, a deteriorating trend reflective of deviations in current expenditure and under-execution of capital spending. Over the past years, there was a significant increase in the reliance on supplementary budgets, which undermines the credibility of the budget process and the approved budget at the beginning of the fiscal year. The overall fiscal framework could be improved with a more comprehensive analysis of the implications of policy changes.

Management of assets and liabilities. A comprehensive and inclusive process is lacking in managing public investment. Economic analysis is carried out for the largest projects, but it is not independently reviewed or published. Project costing and project monitoring meet the basic requirements, but the established project selection criteria tend not to be followed when selecting investments. There is no systematic monitoring of projects during implementation even though the legal framework requires both expenditure and physical monitoring.

Fiscal risk reporting. Reporting of risks associated with public corporations could be improved, as SOE audited financial statements are provided between 6 and 9 months after the year-end. Financial statements of SOEs are produced annually within 3 months but are not audited on an annual basis.

Control in budget execution. The internal audit function requires consolidation by high-level authorities to rationalize the sizing of the internal audit units and to ensure effective implementation of quality assurance mechanisms. Transparency in contract implementation should be enhanced to allow central tracking of the status of public procurement contracts.

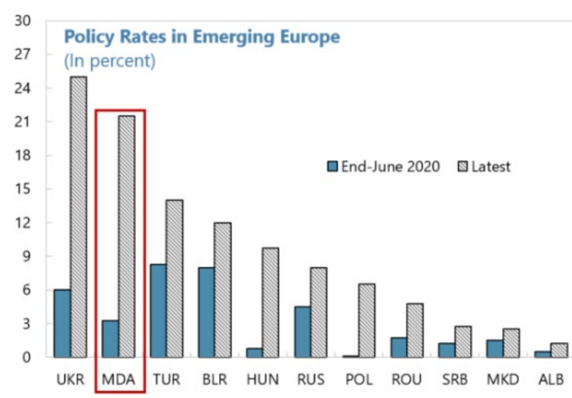
Accounting and reporting. The introduction of public sector accounting standards needs to be accelerated.

[1] Link to the full report in Romanian. A Gender Responsive Public Financial Management (GRPFM) assessment was included as an annex.

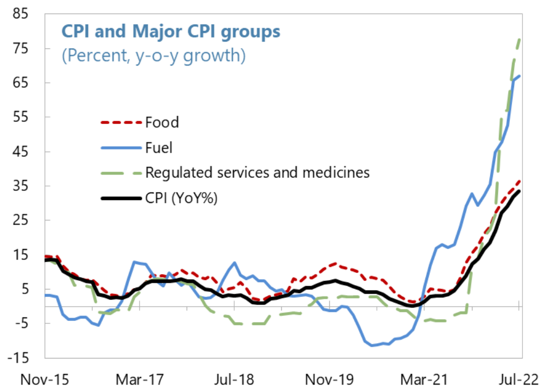
B. Monetary and Exchange Rate Policies

Background

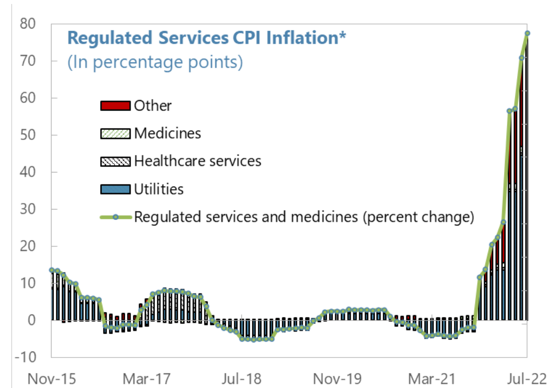
18. **Inflation pressures continued to accelerate, and the data-driven and forward-looking monetary policy response has been appropriate.** Annual inflation stands at 33.5 percent in July, driven primarily by food and energy price increases (Figure 2). The NBM reacted swiftly and appropriately to inflationary pressures, aiming to contain second round effects and anchor longer-term inflation expectations. The NBM further tightened its monetary policy with three consecutive 300 bps increases in the base rate in May, June, and August bringing the cumulative increase to 1800 bps since July 2021 and the base rate to 21.5 percent as of August. This has translated into higher deposit and lending rates,



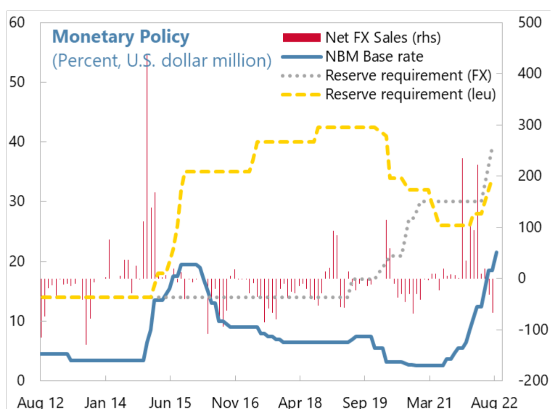
Sources: IMF, World Economic Outlook database; Haver Analytics; and Country Authorities with a slowdown of private credit in Q2. The implementation of recently adopted loan-to-value and debt-service-to-income regulations will further taper consumer credit growth. The MDL depreciated by about 8 percent as of early-August, while improved market conditions enabled the NBM to partially rebuild reserves, with roughly one-third of reserve losses incurred during February-May reversed by early-August.



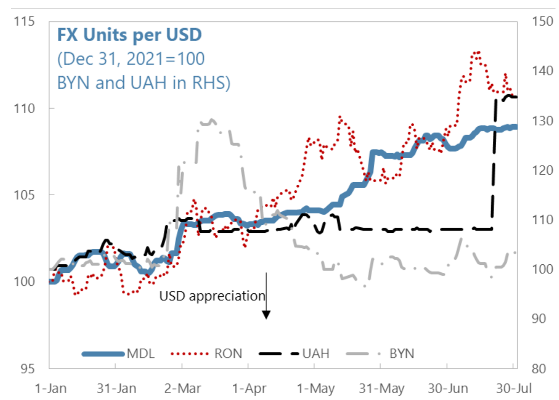
Sources: Moldovan authorities and IMF staff calculations.



Sources: Moldovan authorities and IMF staff calculations.
* Includes medicine prices

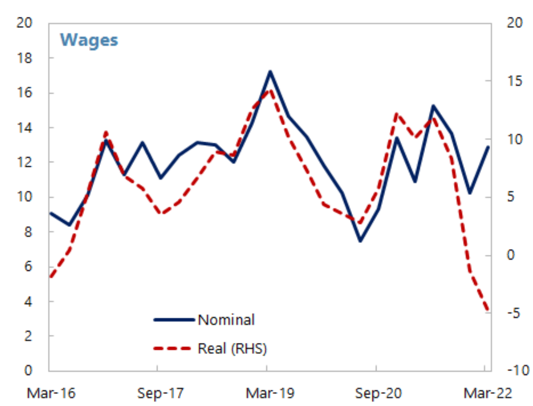


Source: National Bank of Moldova.



Sources: National Bank of Moldova and IMF staff calculations.

19. Given the persistent impact of the war in Ukraine and the global economic environment, inflation is expected to remain high in the near term, while creating challenging policy trade-offs (Box 4). Further energy and food price increases, in combination with depreciation pressures, are expected to worsen the inflation outlook, with the peak to be reached towards the fourth quarter of 2022 (see ¶5). Soaring inflation is eroding purchasing power, especially affecting the most vulnerable households and pensioners. Although wages have increased on average in nominal terms, real average wages have contracted sharply. The resulting



Sources: National Bureau of Statistics and IMF staff calculations.

deterioration of living standards risks affecting Moldova's fragile social fabric and is generating some political discontent over the NBM's policy decisions.

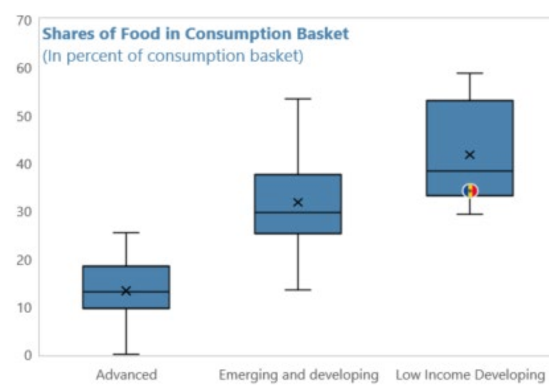
Policies

20. As the medium-term inflation path has shifted upward, the additional monetary policy tightening implemented by the NBM in August was warranted and appropriate. Monetary policy should remain data-driven and forward looking, firmly focusing on tackling domestic sources of inflation and second round effects of supply-side shocks. Staff underscored that persistent inflationary pressures and budget financing constraints put a high premium on finding an appropriate policy mix. While allowing full pass-through of international to domestic prices, fiscal support should be temporary, better targeted toward the most vulnerable, and avoid creating distortions. Staff also reiterated that relying further on exchange rate flexibility and preserving sufficient FX buffers is crucial to cope with new or longer-lasting shocks. The authorities agreed on the need to carefully balance tightening policies against maintaining banking system liquidity and supporting slowing economic activity.

21. Safeguarding the NBM's independence is essential to reinforce its credibility and strengthen policy effectiveness, especially in the current highly uncertain environment. Against the background of repeated past attacks on the autonomy of the central bank and its management, staff reiterated that the NBM's independence is critical to ensure its effectiveness in preserving macroeconomic and financial stability, and to effectively execute its functions and deliver on its mandates. The authorities and staff agreed that reforms under the current ECF/EFF program aiming at further strengthening central bank independence are key to improve its governance and reinforce its credibility.

Box 4. Moldova: Policies to Mitigate the Impact of High Inflation

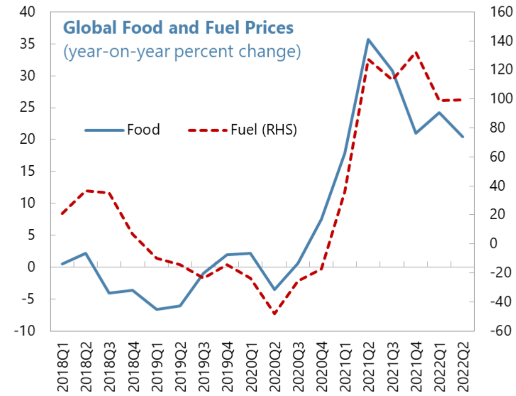
Moldova is hit particularly hard by the rapid surge in global prices, compared to other European countries. With food and beverages carrying a much larger weight in the consumer basket relative to European countries, rising global food prices have contributed to a higher inflation in Moldova. Continued energy price increase globally and in Moldova have also led to an increased pass-through to domestic prices. Also, Moldova's high dependence on energy imports and food imports from Ukraine makes it very vulnerable to the impact of the war and its repercussions on prices.



Source: IMF Consumer Price Inflation database.
Note: Shares of food and non-alcoholic beverages in CPI. Symbols "×" and "—" denote the average and median in each group, respectively. The boxes show the 25th–75th percentiles, and the whiskers show the minimum and maximum points. CPI = Consumer Price Index.

Box 4. Moldova: Policies to Mitigate the Impact of High Inflation (concluded)

The authorities' policy response has been strong. The NBM's response was swift and appropriate (¶18). The authorities also adopted a range of measures to protect the most vulnerable households and firms from price increases. These included: subsidized tariffs for household energy bills during the heating season, budgetary support to small businesses to compensate for price of gas and electricity, prices control by regulating profit margins on some essential goods, allocations to public institutions to cover their annual energy costs, and recapitalization of Energocom, the central electricity supplier.



Sources: Bloomberg Finance L.P., IMF Staff Calculations.

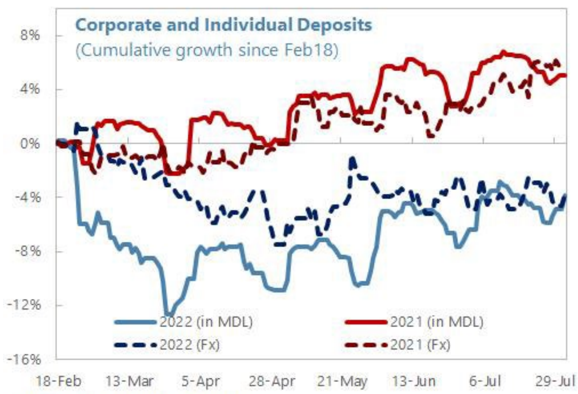
Additional fiscal support should be targeted, temporary and transparent. The relatively strong social safety net in Moldova could also be expanded as needed (e.g., by increasing benefit levels and coverage). With the next heating season approaching, the authorities have designed a more targeted package of support measures for households (Box 1), a step in the right direction. Should food security become a concern, revenue measures such as reduced consumption tax could be considered temporally and with a clear sunset clause.[1]

[1] See Amaglobeli, David, Emine Hanedar, Gee Hee Hong, and Céline Thévenot. 2022. "Fiscal Policy for Mitigating the Social Impact of High Energy and Food Prices." IMF Note 2022/001, International Monetary Fund, Washington, DC

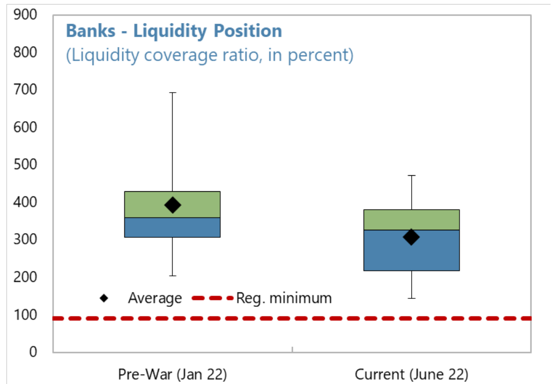
C. Financial Sector Policies

Background

22. The war-induced liquidity pressures on banks have abated but risks remain significant. Total bank deposit declines peaked at 8.7 percent at end-April and corporate deposit dollarization increased by up to 3 percentage points at end-March, both compared to pre-war levels. To address liquidity pressures, the NBM has deployed a full range of tools, including MDL standing facilities and FX swaps, FX interventions, and ensured continued supply of FX banknotes. On the back of renewed confidence, total deposits have recovered, currently at 5 percent below the pre-war level, while corporate deposit dollarization decreased back to the pre-war level of 45 percent. The liquidity coverage ratio (LCR) of 224 percent at end-June, is somewhat lower than the 358 percent at end-2021, reflecting the incomplete recovery of deposits and recent increases in reserve requirements but well above the regulatory minimum. Risks to banks' liquidity positions remain significant given the uncertain geopolitical situation. Banks also face cross-border interconnection and funding risks from parent banks in the region that continue to be exposed to the war.

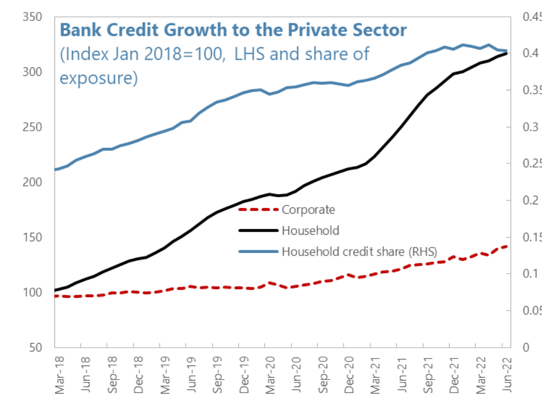


Sources: National Bank of Moldova.
Note: Solid line shows deposits in MDL currency.



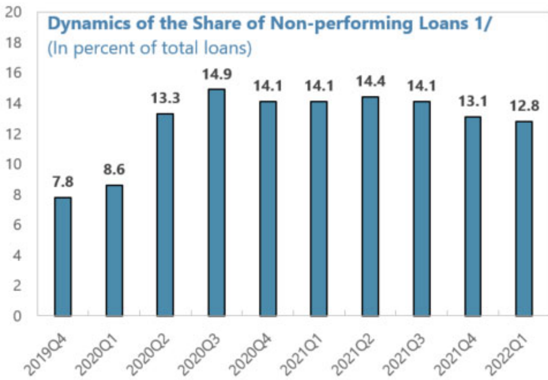
Sources: National Bank of Moldova.
Note: The blue and green boxes show the inter-quartile range with whiskers at 5th/95th percentiles. Charts represent data for 11 Moldovan banks.

23. The banking system continues to be adequately capitalized and profitable amid signs of moderating credit growth. At end-June 2022, bank capital adequacy ratio stood at 29.3 percent, the NPL ratio at 6.7 percent, and ROE and ROA at 15.9 and 2.7 percent, respectively. While overall bank credit growth continues to be robust, it is still trending below its long-term average. Reflecting this, the NBM appropriately decided to maintain the counter-cyclical capital buffer rate at 0 percent. To mitigate risks related to excessive consumer credit growth, that has been on a steeply increasing trajectory since last year, the NBM raised the systemic buffer rate by 2 percentage points for banks' exposures to household credit, but this is currently not binding for any bank given their high levels of capitalization. The NBM also issued regulation on responsible lending that introduced loan-to-value and debt-service-to-income thresholds together with stricter credit-worthiness assessments, in effect from the beginning of July for banks. Aided by these regulations and the continued tightening of monetary policy, the growth rate of new real estate and consumer credit loans has slowed by 2022Q2 to 30 and 27 percent (y/y), respectively.

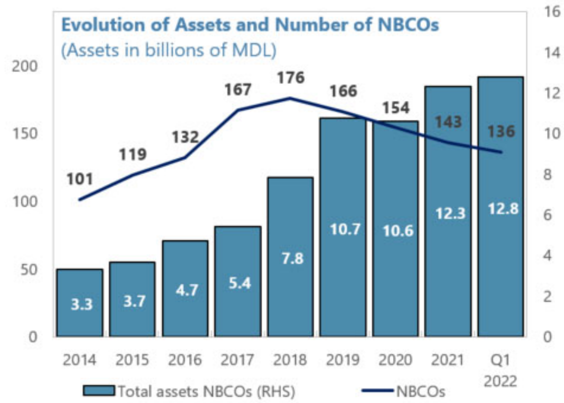


Sources: National Bank of Moldova

24. Despite sufficient capital buffers, vulnerabilities in the non-bank credit organizations (NBCO) could have financial stability implications. Regulations to curb excessive consumer credit growth in the non-bank sector have been adopted by the National Commission for Financial Markets (NFCM), similar to those by the NBM for banks, effective from September 1, 2022. Despite recent declines in the NPL ratio, to 12.8 percent in 2022Q1, the NCFM should closely monitor risks related to NBCO lending, especially in the context of rising interest rates and their growing loan portfolio, to safeguard against possible defaults. Past stress tests suggest that NBCOs have enough capital to absorb adverse shocks. Although NBCOs reported no open currency positions, their higher share of loans in foreign currencies expose them to exchange rate credit risk, while their funding from non-residents poses maturity and liquidity risks, as a sudden funding stop could lead to an inability to roll over debt in a situation of tight liquidity. These exposures can have financial stability implications, as loans issued by NBCOs stand at around 17 percent of total financial sector assets.



1/ Nonperforming loans – include categories substandard, doubtful and compromised
Source: Comisia Națională A Pieței Financiare



Source: Comisia Națională A Pieței Financiare

Policies

25. Several parts of the financial sector's policy framework have been strengthened to safeguard financial stability. The financial safety net was improved through amendments to the ELA framework of the NBM (MEFP ¶12). The newly introduced regulation for stricter credit worthiness assessment and limits on debt service-to-income and loan-to-value will help limit excessive risk taking for banks and non-banks (MEFP ¶13 and ¶17). And finally, following the safeguard assessment, several amendments to enhance the independence of the NBM were prepared and submitted for public consultations (MEFP ¶14). Important steps towards the introduction of Solvency II for the insurance sector have been taken, including adoption of Pillars II and III (MEFP ¶19).

26. Future financial sector reforms focus on several further enhancements. Namely, improving the recovery and resolution framework by end-June 2023 (MEFP ¶17, high priority FSSR recommendation), transferring insurance and NCBO supervision and regulation from NFCM to the NBM by end-June 2023 (MEFP ¶19), consolidating and strengthening the financial consumer protection framework, and continuing the work towards full introduction of Solvency II, including Pillar I legislation and all necessary regulations.

D. Structural Policies

Background

27. Systemic corruption has been one of the main underlying causes of low trust in public institutions and weak rule of law. Criminal enforcement was historically focused on low-level acts and actors, and did not generally result in dissuasive, proportionate, or effective sanctions due to weaknesses in court practice and shortcomings in the framework governing criminal proceedings. Judicial actors were viewed as being among the most corrupt and susceptible to undue influence.

The foregoing has been recognized by the authorities as one of the most pressing problems in Moldova.

28. SOE sector reforms should build momentum. Moldova's large SOE sector relies on extensive government support, poses fiscal risks, undermines competition, and suffers from weak governance (see IMF Country Reports No. 22/1 and No. 22/61). The authorities have requested all central government SOEs to submit standardized quarterly financial statements (end-March 2022 SB) as a first step in reforming the SOE sector, but more needs to be done to build reform momentum.

Policies

29. The authorities have achieved seminal milestones in their ambitious anti-corruption and judicial reform agenda. In March 2022, the authorities began the process of the extraordinary vetting of judges and prosecutors, which is still ongoing. In April 2022, they passed legislation improving the selection process for the heads of the specialized prosecution bodies, including the Anti-Corruption Prosecutor's Office (APO). The authorities then committed to filling the vacant position pursuant to the new procedure by the end of the year (**end-December 2022 SB**). This development has concluded with the new head of the APO officially appointed in June and taking up post on August 1. The authorities are also embarking on several other reforms aimed at strengthening action against corruption, including developing a comprehensive package of amendments to the criminal procedure code and an initiative to narrow the mandate of key anti-corruption institutions to cases of high-level corruption. These reform efforts will go towards meeting end-December SBs. The authorities continue to pursue criminal proceeds from major crimes; in the first half of 2022, they recovered approximately EUR 13 million related to the bank fraud scandal and EUR 14 million from the so-called "Russian laundromat" case.[2]

30. The authorities agreed that reforming the SOE sector remains a priority to improve efficiency and contain fiscal risks (MEFP ¶23)**.** They plan to use information from the quarterly financial statements to enhance the Fiscal Risk Statement and produce a more detailed assessment (MEFP ¶8). They have also made progress in preparing the state ownership strategy with the assistance from international partners, including the World Bank and EBRD (**end-September 2022 SB**), the components of which are important foundations for future SOE structural reforms.

PROGRAM MODALITIES

31. The authorities and staff reached an understanding to propose updated program conditionality (MEFP Tables 1 and 2):

[2] Money laundering cases that were uncovered in 2014. Some US$20 billion were transferred from Russia to other countries through Moldova, which was enabled by state judges through court decisions.

- **A prior action** for the completion of the first review was set on the adoption of a supplementary budget for 2022.

- One **new structural benchmark** is proposed with a view to support the fiscal structural reform agenda, for end-March 2023, on institutionalizing expenditure reviews as part of the budget planning process. The end-June 2022 SB on parliamentary approval of provisions to strengthen the institutional autonomy of the NBM is proposed to be reset as an end-October 2022 SB. While the NBM prepared the draft legislative amendments in line with program commitments, comments from the relevant stakeholders were received with significant delay as the government has been preoccupied with crisis management and judicial reforms. The resetting of the SB to end-October would allow for more time to build political consensus for this reform through extensive consultations with all relevant stakeholders and ensure ownership.

- The **quarterly performance criteria on the cash deficit of the general government and indicative targets** for end-December 2022, end-March 2022, and end-June 2022 were modified in line with the updated projections and agreed policies and all quantitative conditionality was extended until end-December 2023.

- **The inflation consultation clause** was modified due to persistent external shocks and in line with the updated projections.

32. The program is fully financed for the next 12 months, with firm financing assurances for 2023–25. The authorities intend to use the amount available after the completion of this review (the equivalent of SDR 20.65 million, or 11.97 percent of quota) for budget support. Relative to the [ECF/EFF augmentation staff report](), additional financing envisages (Text Table 2): (i) EUR 40 million grant from Germany, (ii) EUR 10 million grant from Romania, (iii) additional EUR 10 million in budget support loan from the French Development Agency (AFD), and (iv) US$9.2 million DPO top-up grant from the World Bank. In addition, in the context of an uncertain and shock-prone outlook and the resulting need to plan for contingencies (¶14), the authorities are seeking additional grant and concessional financing from other donors to support the energy poverty reduction scheme, retain adequate fiscal buffers, and reduce reliance on short-term domestic financing. The authorities indicated that they are in advanced discussions on additional financing with external partners, including the EU and the Japan International Cooperation Agency (JICA). Staff encouraged the authorities to continue close engagement with donors.

Text Table 2. Moldova: Financing Needs and Sources, 2022-24

	2022	2023	2024
Fiscal, MDL millions			
Fiscal Financing Needs	20,189	19,030	16,986
Budget Sources	7,165	11,070	11,455
Net Domestic Issuance	0	4,290	13,121
Other Domestic 1/	-2,019	-4,242	-4,344
External Project Loans 2/	9,184	11,022	2,678
IMF	4,124	4,300	3,276
ECF/EFF: Program	4,124	4,300	3,276
World Bank	3,153	2,150	916
DPO: Loan	2,970	2,150	916
DPO: Grant	183	0	0
European Commission	2,386	1,509	1,339
DG ECFIN: MFA Loans	811	1,006	1,205
DG ECFIN: MFA Grants	347	252	134
DG NEAR: Budget Support Grants	1,228	252	0
Bilateral Support	3,360	0	0
AFD: Budget Support Loan	1,391	0	0
AFD: Sectoral Support Loan	348	0	0
Government of Poland: Budget Support Loa	463	0	0
Government of Romania: Grant	232	0	0
Government of Germany: Grant	927	0	0
Balance of Payments, USD millions			
BOP financing needs	1198	360	-125
Reserves drawdown	514	-10	-510
External financing	684	370	385
IMF	208	200	286
World Bank	159.2	100	40
DPO: Loan	150	100	40
DPO: Grant	9.2	0	0
Bilateral Loans	111	0	0
France - AFD	88	0	0
Government of Poland	23	0	0
Bilateral Grants	59	0	0
Government of Romania	12	0	0
Government of Germany	47	0	0
European Commission	147	70	59
DG ECFIN: MFA Loans	41	47	53
DG ECFIN: MFA Grants	18	12	6
DG NEAR: Budget Support Grants	88	12	0

1/ Includes use of funds in the single Treasury account, privatization receipts, and some transfers between government bodies.
2/ Financing related to infrastructure projects.

33. Moldova is expected to meet its repayment obligations to the Fund and remains at moderate risk of debt distress. The Fund's exposure peaks at 6.7 percent of GDP in 2024, while the total debt service to the Fund peaks at 2.5 percent of total exports in 2024. Moldova has a strong track record of repayments to the Fund, with the public debt considered sustainable. Moldova's risk of external debt distress remains low, while its overall risk of debt distress is assessed to be moderate. Although the program's macro framework is based on conservative assumptions that incorporate the latest WEO revisions, a longer-than-expected impact from the war in Ukraine, climate-related shocks, or the materialization of other major risks, could constrain the capacity to repay. Risks to the capacity to repay remain rooted in the volatile political environment and the possibility of policy reversals.

34. Risks to the program remain high but mitigated by strong ownership. The authorities remain committed to program objectives, with Fund-supported reforms benefiting from strong synergies with the EU accession reform agenda. The authorities are also cognizant of the risks related to the energy sector and other spillovers from the war in Ukraine, and, in consultation with staff, continue to update contingency plans to deal with more protracted shocks. Moldova's external reserve buffer is broadly adequate, safeguarding against sudden external adjustment in the event of intensification of spillovers from the war. Implementation of the prior action and the authorities' resolve to press ahead with difficult but necessary reforms can mitigate these risks. Help from development partners and donors would help sustain reform momentum and catalyze external financing.

STAFF APPRAISAL

35. The fallout from Russia's invasion of Ukraine continues to weigh on the outlook for Moldova's economy. Real GDP is expected to stagnate in 2022 amid spillovers from a worsening global outlook, supply disruptions, higher input costs, and adverse drought conditions on agricultural production. Growth is expected to remain subdued in 2023, before gradually recovering over the medium term. However, economic scarring is estimated to be significant, reflecting protracted war-induced disruptions, with real GDP standing at about 7 percent below pre-war forecast in 2026. Inflation accelerated sharply due to rising energy and food prices, and the exchange rate depreciated, reflecting challenging market conditions. On the other hand, well-capitalized, liquid, and profitable banks have weathered the impact of the current crisis satisfactorily. Nevertheless, risks to the outlook remain significant, given Moldova's high energy import dependence and extreme vulnerability to spillovers from the war in Ukraine.

36. The program remains on track, despite the difficult environment. The authorities have met all end-June quantitative performance criteria and have promptly completed important end-June structural program commitments on fiscal governance and administration. Good progress has also been made to advance structural commitments related to financial sector oversight. Furthermore, the authorities appointed the head of the Anti-Corruption Prosecution Office—an important milestone under the program—in June, well-ahead of schedule.

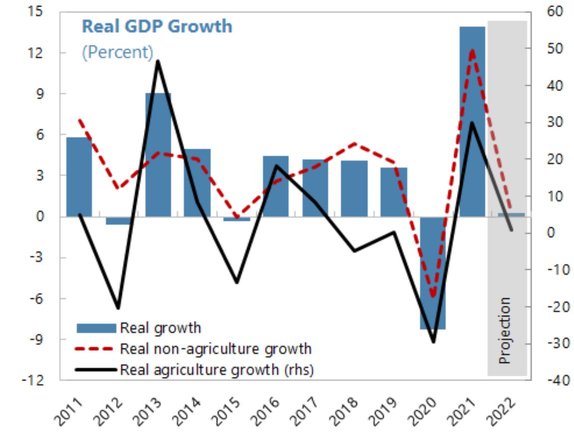
37. The 2022 supplementary budget appropriately envisages additional allocations to cushion the vulnerable from rising energy and food costs and soaring inflation. Going forward, concerted efforts are warranted to address persistent under-execution of approved budgetary spending with a view to improve spending efficiency and foster budget credibility. Fiscal policy priorities for 2023 appropriately focus on structural changes to improve the impact of social assistance programs, addressing capacity constraints in the civil service, and securing external grants to meet Moldova's crisis-induced financing needs. With risks skewed to the downside, a strong policy momentum remains critical to securing budget financing from external partners.

38. Legal amendments to safeguarding the NBM's independence remain a priority and are critical. The NBM's data-driven approach to monetary policy has been instrumental in anchoring inflation expectations and containing the second-round effects of higher imported inflation and supply-side disruptions. Strong NBM governance and independence—supported by building on the decisive reforms under the 2016 ECF/EFF—are therefore vital for the current governance-focused program and effective crisis management. To this end, parliamentary approval of legislative amendments to strengthen the institutional autonomy of the NBM, in line with the 2020 safeguards assessment, is critical (end-October 2022 SB). Political decision makers should refrain from initiatives 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.

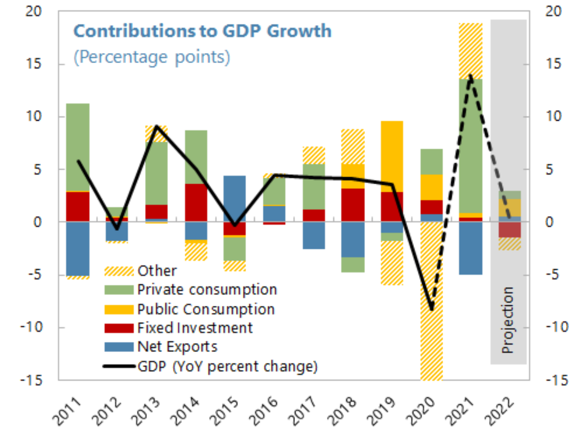
39. In light of the progress so far and the authorities' policy commitments, staff supports the completion of the first review under the ECF/EFF-supported program, modification of performance criteria, inflation targets, and setting end-December 2023 targets. The authorities' request for modification of the inflation consultation and the performance criteria on the cash deficit of the general government, as well as the resetting of the end-June 2022 SB related to the institutional autonomy of the NBM, do not undermine the achievement of the program's objectives. The program remains on track, with strong ownership. Despite significant risks to the program, the authorities' firm commitment to sound economic management and structural reforms warrant continued Fund support.

Figure 1. Moldova: Real Sector Developments

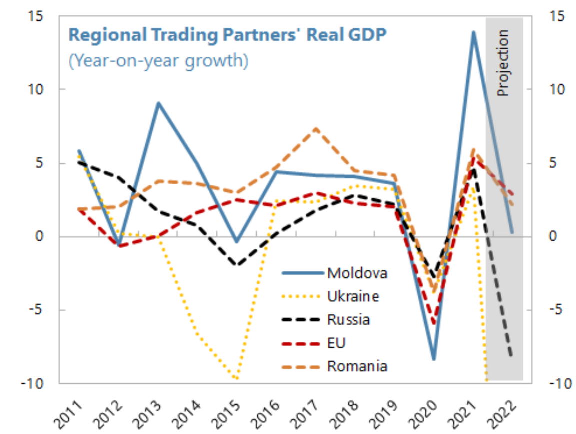
Economic activity is expected to stagnate in 2022….



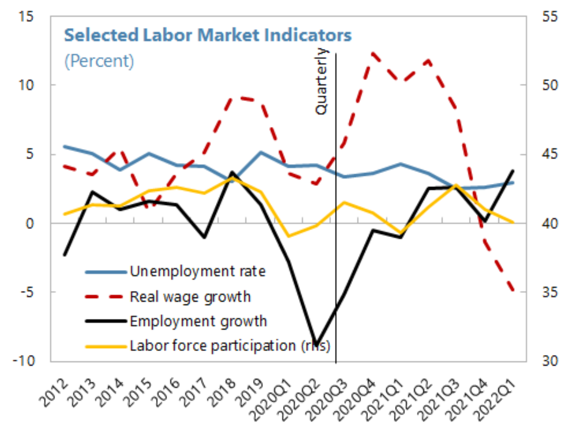
….mainly on account of lower investment..



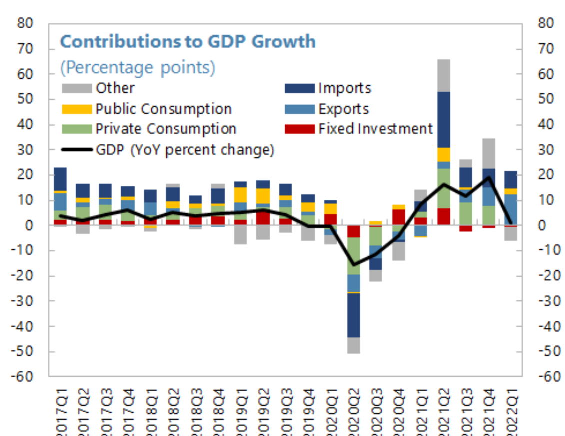
Main trade partners are adversely affected by the war in Ukraine.



Real wages fell, on account of the sharp inflation increase.



The post-pandemic rebound in growth was strong, but 1Q2022 shows signs of slowdown.



Important foreign currency inflows are helping sustain demand.

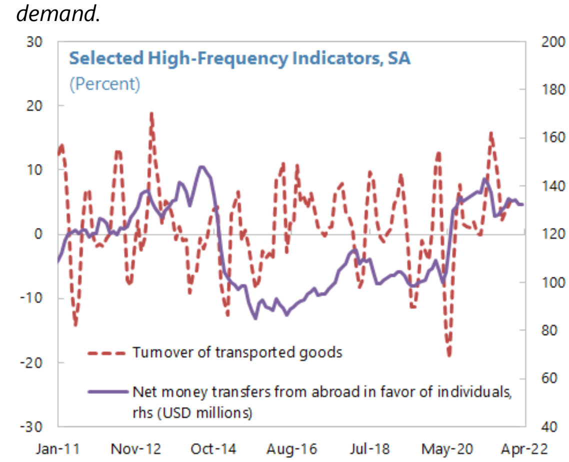
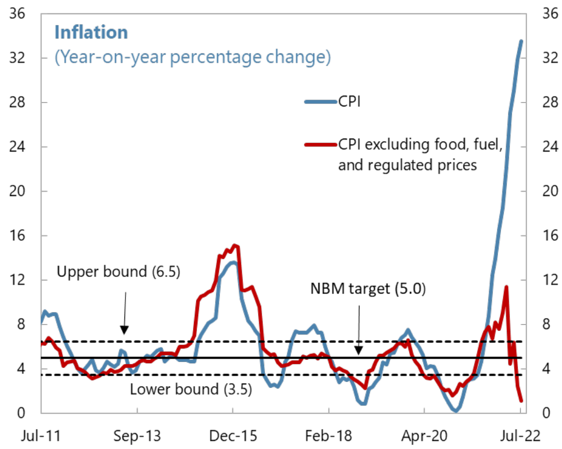
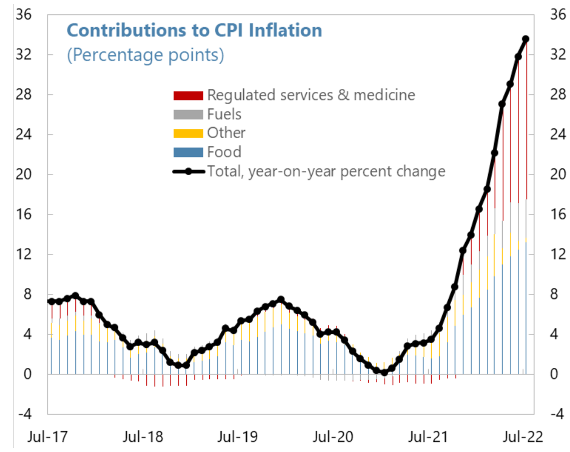


Figure 2. Moldova: Monetary Developments

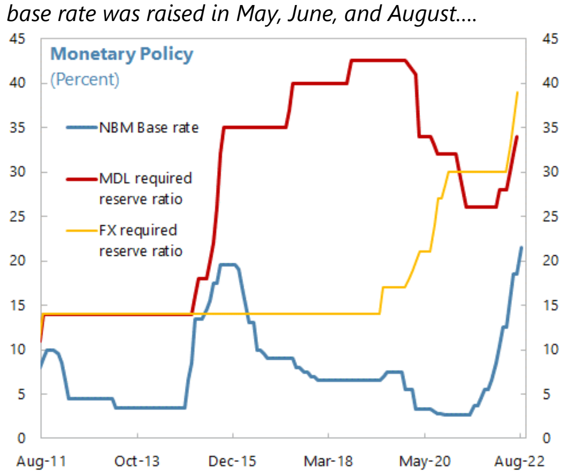
Inflation continues to rise....



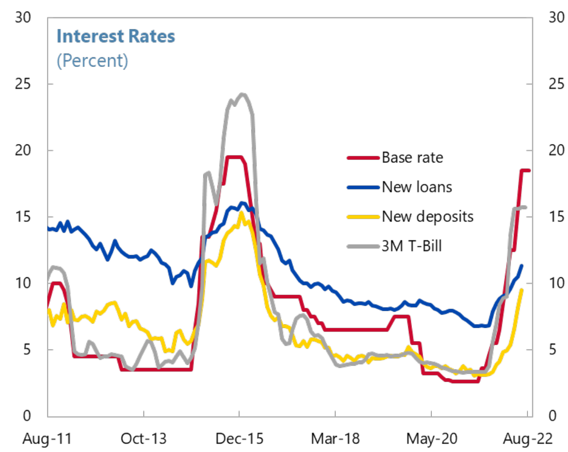
....on account of sharp increases in food and energy prices.



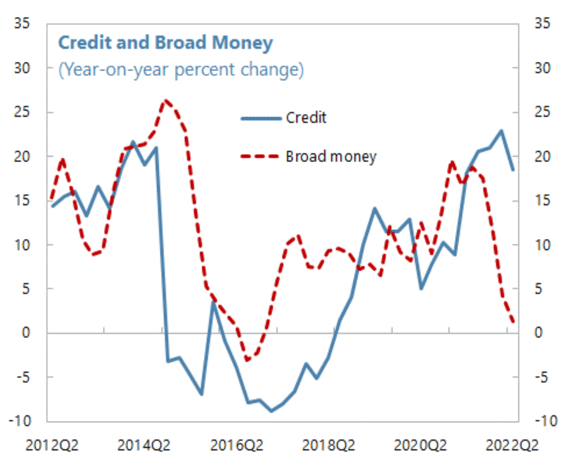
In response to inflation and exchange rate pressures, the base rate was raised in May, June, and August....



....and credit conditions have also tightened.



Liquidity in the economy has been under pressure.



The exchange rate depreciated by about 8 percent since the beginning of the war, and FX interventions have eased.

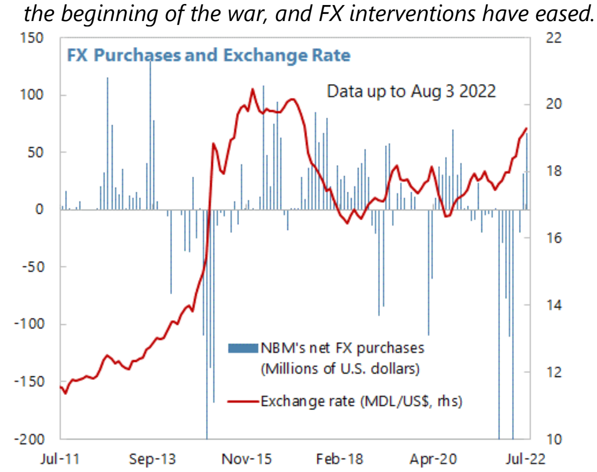
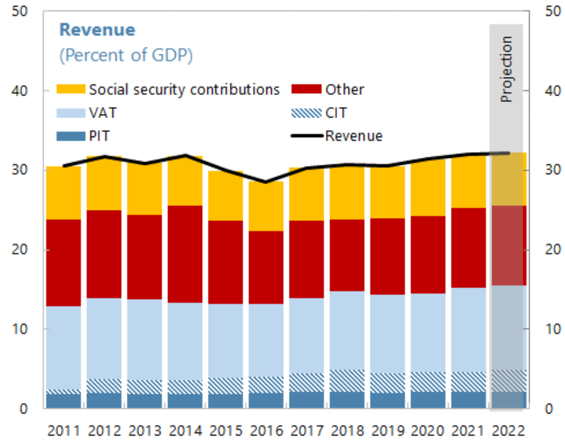
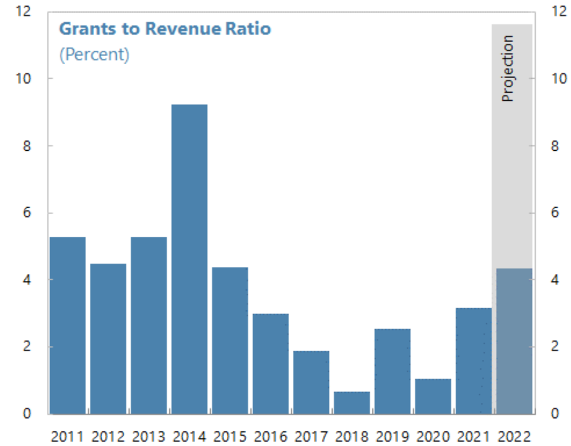


Figure 3. Moldova: Fiscal Sector Developments

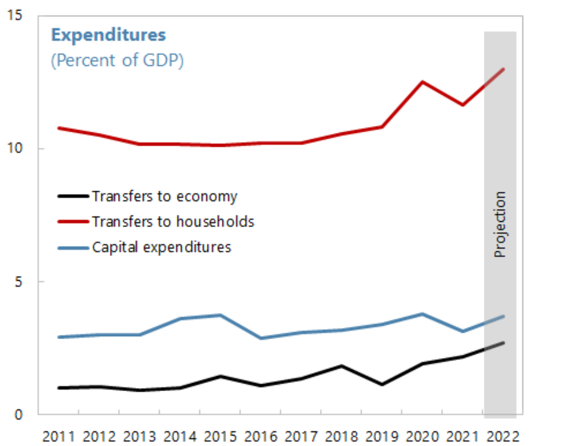
Revenues are robust....



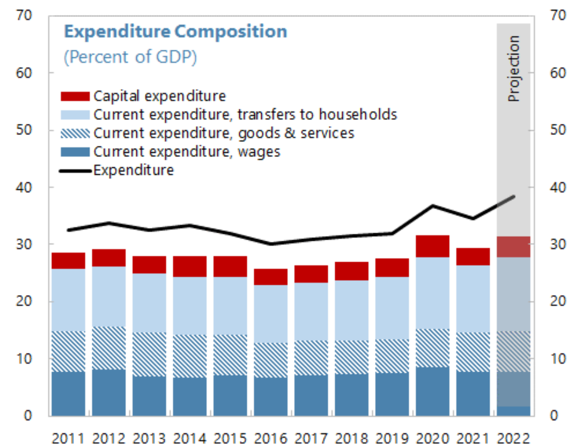
....along with favorable external support in 2022.



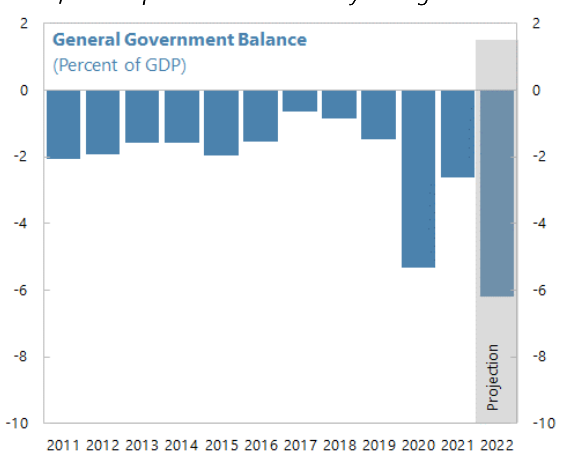
Spending pressures have mounted....



...driven by multiple crises' demands on current spending.



The deficit is expected to reach a 10-year high....



....but public debt remains contained.

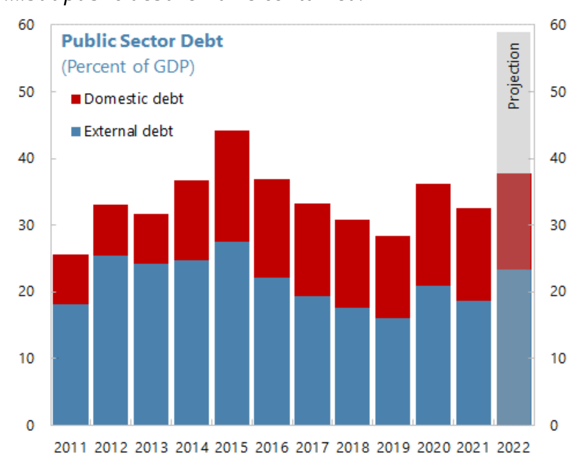
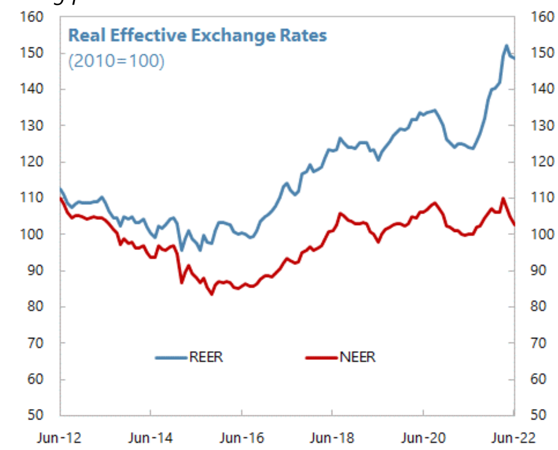
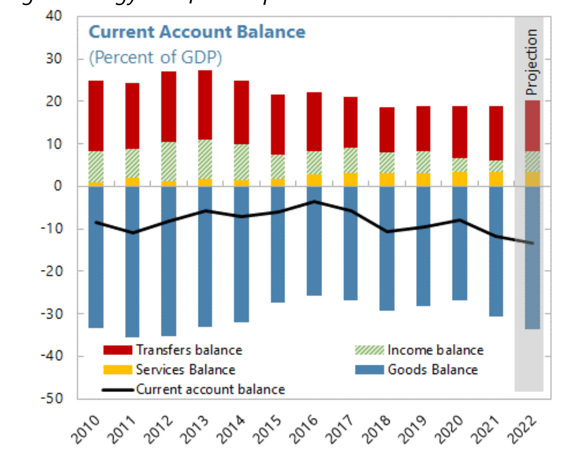


Figure 4. Moldova: External Sector Developments

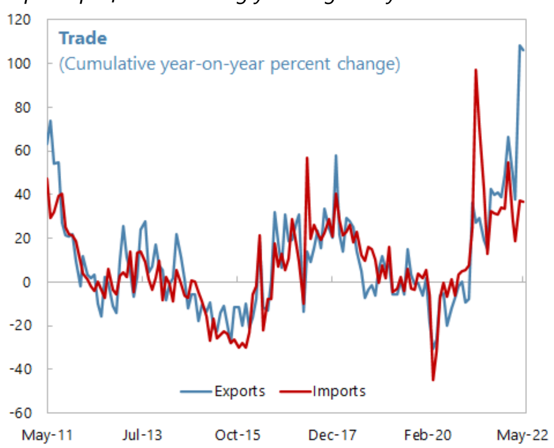
The NEER and REER have recently strengthened, with easing pressures on the lei.



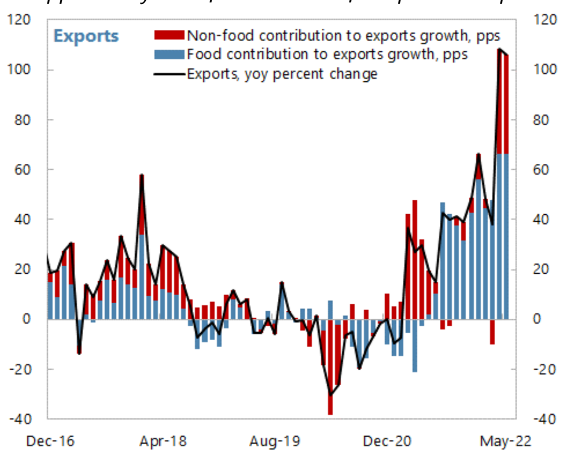
The current account deficit is expected to worsen due to higher energy and food import bill.



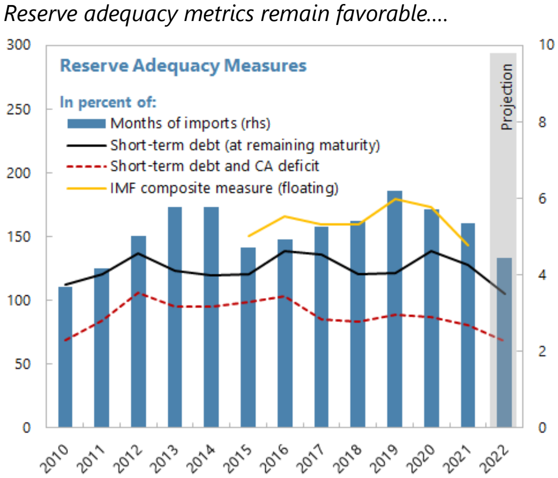
Exports performed strongly through May....



....supported by both food and non-food product exports.



Reserve adequacy metrics remain favorable....



....with some recovery in net IIP.

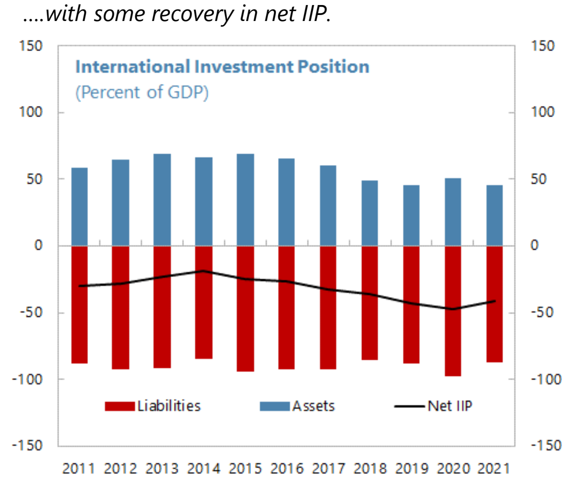


Table 2. Moldova: Selected Economic Indicators, 2017–2027 1/

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)										
Real Sector Indicators											
Gross domestic product											
Real growth rate	4.2	4.1	3.6	-8.3	13.9	0.0	2.3	5.8	5.4	5.0	5.0
Demand	6.1	8.5	4.1	-7.5	15.3	-0.6	2.7	5.2	4.6	4.2	4.0
Consumption	5.6	3.2	3.7	-7.9	13.2	2.5	2.7	4.1	4.4	4.4	4.3
Private	5.3	-1.5	-0.9	2.9	15.6	1.0	3.0	4.0	4.3	4.3	4.3
Public	13.6	15.7	47.6	16.1	2.0	9.8	1.1	4.5	4.9	5.1	4.5
Gross fixed capital formation	9.4	14.4	12.0	5.6	1.7	-6.0	6.3	10.4	9.2	8.3	8.5
Net Exports of goods and services	-10.9	-14.3	-3.8	2.8	-21.1	2.8	-4.0	-3.3	-1.9	-1.2	-0.3
Exports of goods and services	11.1	4.1	8.2	-14.9	17.5	4.3	6.9	7.2	8.3	8.4	8.6
Imports of goods and services	11.0	8.4	6.2	-9.5	19.2	0.9	5.5	5.4	5.4	5.2	5.1
Nominal GDP (billions of Moldovan lei)	176.0	189.1	206.3	199.7	241.9	278.2	308.2	343.9	382.4	423.6	469.3
Nominal GDP (billions of U.S. dollars)	9.5	11.3	11.7	11.5	13.7	14.0	14.3	15.0	16.2	17.5	18.8
Consumer price index (average)	6.5	3.6	4.8	3.8	5.1	28.5	13.8	5.0	5.0	5.0	5.0
Consumer price index (end of period)	7.3	0.9	7.5	0.4	13.9	30.0	8.0	5.0	5.0	5.0	5.0
GDP deflator	5.0	3.2	5.3	5.6	6.3	15.0	8.3	5.5	5.5	5.5	5.5
Average monthly wage (Moldovan lei)	5695	6,443	7,356	8,104	8,619	9,328	10,850	12,025	13,275	14,625	14,625
Average monthly wage (U.S. dollars)	308	383	419	468	488	471	505	525	564	604	585
Unemployment rate (annual average, percent)	4.1	3.1	5.1	3.8	3.5	3.5	3.5	3.5	3.5	3.5	3.5
	(Percent of GDP)										
Saving-Investment Balance											
Foreign saving	5.8	10.8	9.5	7.9	11.7	12.8	12.4	11.4	10.2	9.3	8.5
National saving	16.6	12.6	13.9	17.1	12.5	12.6	13.4	15.6	17.0	18.2	19.3
Private	14.1	10.3	12.0	18.6	12.0	15.1	16.4	16.4	16.8	17.6	18.4
Public	2.5	2.3	1.9	-1.5	0.5	-2.5	-3.0	-0.8	0.2	0.6	0.9
Gross investment	22.4	23.3	23.4	24.9	24.2	25.5	25.9	27.0	27.2	27.4	27.8
Private	19.3	20.2	20.0	21.1	21.1	21.8	22.8	22.9	23.0	23.2	23.5
Public	3.1	3.2	3.4	3.8	3.1	3.7	3.1	4.1	4.2	4.2	4.2
Fiscal Indicators (General Government)											
Primary balance	0.5	-0.2	-0.8	-4.7	-2.0	-5.3	-5.4	-4.2	-3.3	-2.8	-2.3
Overall balance	-0.7	-0.9	-1.5	-5.3	-2.6	-6.2	-6.0	-4.9	-4.0	-3.6	-3.3
Stock of public and publicly guaranteed debt	33.0	30.4	28.1	33.7	32.5	36.9	39.2	41.4	41.4	40.5	39.3
	(Percent change, unless otherwise indicated)										
Financial Indicators											
Broad money (M3)	9.4	7.8	8.2	19.6	11.3	0.6	...	...	...	...	...
Velocity (GDP/end-period M3; ratio)	2.3	2.3	2.3	1.9	2.0	2.3	...	...	...	...	...
Reserve money	11.2	17.7	7.6	18.8	3.4	13.3	...	...	...	...	...
Credit to the economy	-3.4	4.1	11.5	10.3	21.0	9.9	...	...	...	...	...
Credit to the economy, percent of GDP	21.6	21.0	21.4	24.4	24.4	23.3	...	...	...	...	...
	(Millions of U.S. dollars, unless otherwise indicated)										
External Sector Indicators 2/											
Current account balance	-555	-1212	-1112	-906	-1595	-1803	-1781	-1711	-1663	-1622	-1591
Current account balance (percent of GDP)	-5.8	-10.8	-9.5	-7.9	-11.7	-12.8	-12.4	-11.4	-10.2	-9.3	-8.5
Remittances and compensation of employees (net)	1,494	1,669	1,729	1,669	1,791	1,927	2,112	2,236	2,369	2,509	2,660
Gross official reserves 3/	2,803	2,995	3,060	3,784	3,902	3,388	3,398	3,908	4,111	4,391	4,715
Gross official reserves (months of imports)	5.3	5.4	6.2	5.7	5.3	4.4	4.2	4.6	4.5	4.5	4.9
Exchange rate (Moldovan lei per USD, period average)	18.5	16.8	17.6	17.3	17.7	...	...	...	...	...	...
Exchange rate (Moldovan lei per USD, end of period)	17.1	17.1	17.2	17.2	17.7	...	...	...	...	...	...
Real effective exch.rate (average, percent change)	10.5	9.1	2.1	5.3	-1.7	...	...	...	...	...	...
External debt (percent of GDP) 4/	72.8	67.6	65.1	73.5	63.5	67.6	70.7	72.4	69.7	65.3	61.5
Debt service (percent of exports of goods and services)	12.6	14.7	13.4	15.9	10.8	11.5	12.1	12.6	12.5	13.6	12.4

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

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

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

4/ Includes private and public and publicly guaranteed debt.

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

Table 3a. Moldova: Balance of Payments, 2017–2027 1/
(Millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-555	-1,212	-1,112	-906	-1,595	-1,803	-1,781	-1,711	-1,663	-1,622	-1,591
Merchandise trade balance	-2,559	-3,294	-3,312	-3,094	-4,190	-4,738	-4,776	-4,924	-5,054	-5,230	-5,426
Exports	1,866	1,975	2,118	1,944	2,562	2,639	2,829	3,041	3,279	3,547	3,852
Imports	4,425	5,269	5,430	5,039	6,753	7,378	7,605	7,965	8,333	8,778	9,278
Services balance	304	356	351	382	458	457	499	557	619	686	760
Exports of services	1,253	1,477	1,544	1,278	1,635	1,837	2,035	2,271	2,525	2,798	3,099
Imports of services	949	1,121	1,193	895	1,177	1,380	1,536	1,714	1,906	2,112	2,339
Income balance	556	536	615	390	372	617	815	915	1,019	1,104	1,192
Compensation of employees	762	854	878	730	763	868	990	1,069	1,155	1,247	1,347
Income on direct and portfolio investment	-204	-316	-262	-339	-390	-251	-174	-153	-134	-142	-154
Other income	-2	-2	-2	-1	-2	-1	-1	-1	-1	-1	-1
Current transfer balance	1,143	1,190	1,234	1,415	1,766	1,862	1,681	1,741	1,753	1,818	1,882
Remittances	732	815	851	939	1,028	1,059	1,122	1,167	1,214	1,263	1,313
Budget transfers	144	100	102	112	100	370	95	83	33	35	38
Other transfers	268	275	281	364	637	433	464	491	506	521	532
Capital and Financial Account Balance	-1,013	-1,391	-1,096	-1,259	-1,664	-799	-1,503	-1,807	-1,851	-1,970	-2,003
Capital account balance	-21	-36	-55	-66	-51	-38	-46	-53	-53	-56	-59
Financial account balance (inflows: "-")	-1,034	-1,427	-1,151	-1,325	-1,715	-837	-1,549	-1,860	-1,904	-2,026	-2,061
Foreign direct investment, net (inflows: "-")	-139	-259	-468	-152	-239	-61	-212	-234	-264	-318	-334
Portfolio investment and derivatives, net	-1	5	5	0	-6	-4	0	-1	3	3	4
Other investment, net	-895	-1,173	-688	-1,174	-1,470	-772	-1,337	-1,626	-1,643	-1,711	-1,732
Loans	-166	-111	-119	-229	-148	-150	-7	-45	108	159	137
General government, net	-121	17	1	-121	-51	-116	47	83	229	290	269
Private sector, net	-45	-128	-120	-108	-97	-34	-54	-129	-121	-131	-132
Other capital flows, net	-729	-1,061	-569	-944	-1,321	-622	-1,330	-1,580	-1,750	-1,869	-1,869
Errors and omissions	76	47	18	-84	39	0	0	0	0	0	0
Overall Balance	534	226	2	269	107	-1,004	-278	97	188	348	411
Financing	-534	-226	-2	-269	-107	1,004	278	-97	-188	-348	-411
Gross international reserves (increase: "+")	531	236	60	637	206	-514	10	510	203	280	324
Use of Fund credit, net	-44	-55	-36	186	31	188	141	320	14	-67	-88
Monetary authorities	-44	-41	-37	-43	-34	-13	-12	268	42	-30	-34
Purchases	18	21	18	7	0	0	0	286	64	0	0
Repurchases	62	62	55	50	34	13	12	18	22	30	34
General government	0	-14	1	229	65	202	153	52	-28	-37	-54
Purchases	26	13	28	254	81	208	200	143	32	0	0
Repurchases	26	27	26	25	17	7	47	91	60	37	54
Exceptional financing	113	65	24	162	68	302	147	93	0	0	0
European Commission	0	0	22	84	59	41	47	53	0	0	0
World Bank	5	60	1	54	0	150	100	40	0	0	0
Other official bilateral donors	108	5	0	24	10	111	0	0	0	0	0
(Percent of GDP, unless otherwise indicated)											
Memorandum Items:											
Gross official reserves (millions of U.S. dollars) 2/	2,803	2,995	3,060	3,784	3,902	3,388	3,398	3,908	4,111	4,391	4,715
Months of imports of good and services	5.3	5.4	6.2	5.7	5.3	4.4	4.2	4.6	4.5	4.5	4.9
Percent of short term debt and CA deficit	85.5	83.2	89.3	87.5	80.3	67.8	64.5	69.8	67.3	72.8	103.4
Pct of short-term debt at remaining maturity	135.7	120.4	121.4	138.6	127.7	105.2	95.4	99.4	91.7	98.9	103.4
Pct of the IMF composite measure (floating) 3/	165.8	159.3	159.8	179.8	173.6	143.5	132.1	139.6	137.8	141.2	148.0
Current account balance	-5.8	-10.8	-9.5	-7.9	-11.7	-12.8	-12.4	-11.4	-10.2	-9.3	-8.5
Goods and services trade balance	-23.7	-26.1	-25.2	-23.5	-27.3	-30.5	-29.8	-29.1	-27.3	-26.0	-24.8
Export of goods and services	32.8	30.7	31.2	27.9	30.7	31.9	33.9	35.4	35.7	36.3	37.0
Import of goods and services	56.5	56.8	56.4	51.5	58.0	62.3	63.8	64.4	63.0	62.3	61.9
Foreign direct investment balance	1.5	2.3	4.0	1.3	1.7	0.4	1.5	1.6	1.6	1.8	1.8
(Percent change of amounts in U.S.dollars, unless otherwise indicated)											
Exports of goods	19.8	5.8	7.2	-8.2	31.8	3.0	7.2	7.5	7.8	8.2	8.6
Exports of services	17.6	17.9	4.5	-17.2	27.9	12.4	10.8	11.6	11.2	10.8	10.8
Imports of goods	21.7	19.1	3.0	-7.2	34.0	9.3	3.1	4.7	4.6	5.3	5.7
Imports of services	12.3	18.2	6.4	-24.9	31.5	17.2	11.3	11.6	11.2	10.8	10.8
Remittances and compensation	15.7	14.8	14.7	14.5	13.1	13.7	14.7	14.9	14.6	14.3	14.2
Debt service (pct of exports of goods and services)	12.6	14.7	13.4	15.9	10.8	11.5	12.1	12.6	12.5	13.6	12.4

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

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

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

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

Table 3b. Moldova: Balance of Payments, 2017–2027 1/

(Percent of GDP, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-5.8	-10.8	-9.5	-7.9	-11.7	-12.8	-12.4	-11.4	-10.2	-9.3	-8.5
Merchandise trade balance	-26.9	-29.3	-28.2	-26.8	-30.6	-33.7	-33.3	-32.8	-31.1	-29.9	-28.9
Exports	19.6	17.6	18.0	16.9	18.7	18.8	19.7	20.2	20.2	20.3	20.5
Imports	46.5	46.8	46.3	43.7	49.4	52.5	53.1	53.0	51.3	50.2	49.4
Services balance	3.2	3.2	3.0	3.3	3.3	3.3	3.5	3.7	3.8	3.9	4.0
Exports of services	13.2	13.1	13.2	11.1	11.9	13.1	14.2	15.1	15.5	16.0	16.5
Imports of services	10.0	10.0	10.2	7.8	8.6	9.8	10.7	11.4	11.7	12.1	12.5
Income balance	5.8	4.8	5.2	3.4	2.7	4.4	5.7	6.1	6.3	6.3	6.3
Compensation of employees	8.0	7.6	7.5	6.3	5.6	6.2	6.9	7.1	7.1	7.1	7.2
Income on direct and portfolio investment	-2.1	-2.8	-2.2	-2.9	-2.9	-1.8	-1.2	-1.0	-0.8	-0.8	-0.8
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current transfer balance	12.0	10.6	10.5	12.3	12.9	13.3	11.7	11.6	10.8	10.4	10.0
Remittances	7.7	7.2	7.3	8.1	7.5	7.5	7.8	7.8	7.5	7.2	7.0
Budget transfers	1.5	0.9	0.9	1.0	0.7	2.6	0.7	0.5	0.2	0.2	0.2
Other transfers	2.8	2.4	2.4	3.2	4.7	3.1	3.2	3.3	3.1	3.0	2.8
Capital and Financial Account Balance	-10.6	-12.4	-9.3	-10.9	-12.2	-5.7	-10.5	-12.0	-11.4	-11.3	-10.7
Capital account balance	-0.2	-0.3	-0.5	-0.6	-0.4	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3
Financial account balance	-10.9	-12.7	-9.8	-11.5	-12.5	-6.0	-10.8	-12.4	-11.7	-11.6	-11.0
Foreign direct investment, net (inflows: "-")	-1.5	-2.3	-4.0	-1.3	-1.7	-0.4	-1.5	-1.6	-1.6	-1.8	-1.8
Portfolio investment and derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-9.4	-10.4	-5.9	-10.2	-10.7	-5.5	-9.3	-10.8	-10.1	-9.8	-9.2
Loans	-1.7	-1.0	-1.0	-2.0	-1.1	-1.1	0.0	-0.3	0.7	0.9	0.7
General government, net	-1.3	0.1	0.0	-1.1	-0.4	-0.8	0.3	0.6	1.4	1.7	1.4
Private sector, net	-0.5	-1.1	-1.0	-0.9	-0.7	-0.2	-0.4	-0.9	-0.7	-0.7	-0.7
Other capital flows, net	-7.7	-9.4	-4.9	-8.2	-9.7	-4.4	-9.3	-10.5	-10.8	-10.7	-10.0
Errors and omissions	0.8	0.4	0.1	-0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	5.6	2.0	0.0	2.3	0.8	-7.1	-1.9	0.6	1.2	2.0	2.2
Financing	-5.6	-2.0	0.0	-2.3	-0.8	7.1	1.9	-0.6	-1.2	-2.0	-2.2
Gross international reserves (increase: "+")	5.6	2.1	0.5	5.5	1.5	-3.7	0.1	3.4	1.2	1.6	1.7
Use of Fund credit, net	-0.5	-0.5	-0.3	1.6	0.2	1.3	1.0	2.1	0.1	-0.4	-0.5
Monetary authorities	-0.5	-0.4	-0.3	-0.4	-0.2	-0.1	-0.1	1.8	0.3	-0.2	-0.2
Purchases	0.2	0.2	0.2	0.1	0.0	0.0	0.0	1.9	0.4	0.0	0.0
Repurchases	0.6	0.5	0.5	0.4	0.2	0.1	0.1	0.1	0.1	0.2	0.2
General government	0.0	-0.1	0.0	2.0	0.5	1.4	1.1	0.3	-0.2	-0.2	-0.3
Purchases	0.3	0.1	0.2	2.2	0.6	1.5	1.4	1.0	0.2	0.0	0.0
Repurchases	0.3	0.2	0.2	0.2	0.1	0.0	0.3	0.6	0.4	0.2	0.3
Exceptional financing	1.2	0.6	0.2	1.4	0.5	2.2	1.0	0.6	0.0	0.0	0.0
o/w											
European Commission	0.0	0.0	0.2	0.7	0.4	0.3	0.3	0.4	0.0	0.0	0.0
World Bank	0.1	0.5	0.0	0.5	0.0	1.1	0.7	0.3	0.0	0.0	0.0
Other official bilateral donors	1.1	0.0	0.0	0.2	0.1	0.8	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Gross official reserves (millions of U.S. dollars) 2/	2,803	2,995	3,060	3,784	3,902	3,388	3,398	3,908	4,111	4,391	4,715
Months of imports of good and services	5.3	5.4	6.2	5.7	5.3	4.4	4.2	4.6	4.5	4.5	4.9
Percent of short term debt and CA deficit	85.5	83.2	89.3	87.5	80.3	67.8	64.5	69.8	67.3	72.8	103.4
Pct of short-term debt at remaining maturity	135.7	120.4	121.4	138.6	127.7	105.2	95.4	99.4	91.7	98.9	103.4
Pct of the IMF composite measure (floating) 3/	165.8	159.3	159.8	179.8	173.6	143.5	132.1	139.6	137.8	141.2	148.0
Current account balance	-5.8	-10.8	-9.5	-7.9	-11.7	-12.8	-12.4	-11.4	-10.2	-9.3	-8.5
Goods and services trade balance	-23.7	-26.1	-25.2	-23.5	-27.3	-30.5	-29.8	-29.1	-27.3	-26.0	-24.8
Export of goods and services	32.8	30.7	31.2	27.9	30.7	31.9	33.9	35.4	35.7	36.3	37.0
Import of goods and services	56.5	56.8	56.4	51.5	58.0	62.3	63.8	64.4	63.0	62.3	61.9
Foreign direct investment balance	1.5	2.3	4.0	1.3	1.7	0.4	1.5	1.6	1.6	1.8	1.8
(Percent change of amounts in U.S.dollars, unless otherwise indicated)											
Exports of goods	19.8	5.8	7.2	-8.2	31.8	3.0	7.2	7.5	7.8	8.2	8.6
Exports of services	17.6	17.9	4.5	-17.2	27.9	12.4	10.8	11.6	11.2	10.8	10.8
Imports of goods	21.7	19.1	3.0	-7.2	34.0	9.3	3.1	4.7	4.6	5.3	5.7
Imports of services	12.3	18.2	6.4	-24.9	31.5	17.2	11.3	11.6	11.2	10.8	10.8
Remittances and compensation	15.7	14.8	14.7	14.5	13.1	13.7	14.7	14.9	14.6	14.3	14.2
Remittances	6.9	11.3	4.5	10.3	9.5	3.0	6.0	4.0	4.0	4.0	4.0
Compensation of employees	18.8	12.1	2.8	-16.8	4.5	13.8	14.0	8.0	8.0	8.0	8.0
Debt service (pct of exports of goods and services)	12.6	14.7	13.4	15.9	10.8	11.5	12.1	12.6	12.5	13.6	12.4

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

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

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

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

Table 4a. Moldova: General Government Budget, 2017–2027
(Millions of Moldovan lei, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and Grants	53,379	57,996	62,949	62,655	77,378	89,610	97,081	108,681	121,943	136,160	150,678
Revenues	52,371	57,609	61,347	62,006	74,931	85,683	94,637	107,227	120,178	134,205	148,621
Tax revenues	49,990	54,816	58,458	58,987	71,233	81,695	91,074	103,289	115,840	129,441	143,388
Personal income	3,649	3,982	3,970	4,166	5,134	5,885	6,859	7,723	8,587	9,512	10,537
Corporate income	4,074	5,357	5,365	5,123	6,009	7,800	7,954	8,877	9,870	10,934	12,112
Property tax	546	564	580	582	756	756	776	850	945	1,047	1,160
VAT	16,870	18,616	20,183	19,775	25,509	29,591	32,948	37,624	42,062	47,445	52,557
Excises	5,950	5,683	6,222	6,469	7,608	8,206	9,090	11,229	13,252	14,946	16,557
Foreign trade	1,591	1,666	1,798	1,739	2,253	2,465	2,801	3,282	3,650	4,043	4,479
Other	1,796	1,793	1,935	1,898	2,125	2,144	2,186	2,440	2,712	3,005	3,329
Social Fund contributions	11,866	13,038	13,636	14,296	16,224	18,553	21,314	23,360	25,973	28,774	31,874
Health Fund contributions	3,648	4,118	4,768	4,940	5,615	6,295	7,146	7,904	8,788	9,735	10,784
Non-tax revenues	2,381	2,793	2,889	3,018	3,698	3,988	3,563	3,938	4,338	4,764	5,233
NBM profit transfers	0	0	0	218	407	147	0	0	0	0	0
Grants	1,009	387	1,603	650	2,447	3,927	2,443	1,453	1,765	1,955	2,057
Budget support	741	0	1,235	316	2,014	3,023	920	818	1,059	1,173	1,234
Project	268	387	368	334	434	904	1,523	635	706	782	823
Expenditure and Net Lending	54,524	59,609	65,972	73,275	83,714	106,829	115,607	125,533	137,238	151,410	166,164
Current expenditure	49,091	53,597	58,975	65,687	76,151	96,204	106,181	111,419	121,091	133,618	146,394
Wages	12,506	13,733	15,649	17,214	18,776	21,775	24,567	27,909	31,310	34,685	38,423
Goods and services	10,587	11,209	12,080	13,276	16,683	19,341	21,542	23,837	26,084	28,758	31,299
Interest payments	1,959	1,526	1,641	1,707	1,941	2,861	5,399	3,602	3,780	4,668	5,636
Domestic	1,581	1,129	1,213	1,333	1,550	2,182	4,447	3,026	3,215	4,134	5,111
Foreign	378	397	428	374	391	679	953	575	566	534	525
Transfers	20,383	23,411	24,616	28,848	33,467	43,432	49,548	51,295	54,361	58,546	63,040
Transfers to economy 1/	2,417	3,462	2,316	3,840	5,280	6,698	6,958	7,765	8,634	9,565	10,500
Transfers to households	17,966	19,949	22,301	25,008	28,187	36,734	42,590	43,530	45,727	48,982	52,541
Other current expenditure	3,655	3,718	4,989	4,642	5,285	8,795	5,125	4,777	5,555	6,960	7,996
Capital expenditure	5,434	6,012	6,997	7,588	7,563	10,625	9,426	14,114	16,148	17,792	19,770
One-off revenue and expenditure items 2/	0	0	0	0	0	0	0	0	0	0	0
Overall Balance (incl. one-off items)	-1,145	-1,613	-3,023	-10,620	-6,335	-17,219	-18,526	-16,852	-15,295	-15,250	-15,485
Overall balance (excl. one-off items)	-1,145	-1,613	-3,023	-10,620	-6,335	-17,219	-18,526	-16,852	-15,295	-15,250	-15,485
Primary balance (excl. one-off items)	807	-293	-1,595	-9,469	-4,843	-14,860	-16,664	-14,285	-12,617	-11,761	-10,957
Financing (excl. one-off items)	-1,432	380	2,125	3,841	-285	7,459	11,070	11,455	14,544	15,250	15,485
Budget financing	-2,355	-1,157	693	774	-3,140	1,283	4,899	8,827	14,677	15,398	15,649
Central government	-1,870	-495	775	357	-2,865	1,819	4,742	8,827	14,677	15,398	15,649
Net domestic	-581	1,094	1,701	1,787	-4,688	2,799	9,401	14,116	19,141	19,733	20,567
Net foreign (excl. project loans)	-1,379	-2,288	-2,123	-1,256	1,685	-1,481	-4,859	-5,439	-4,614	-4,485	-5,068
Privatization	153	140	85	151	138	500	200	150	150	150	150
Others	-63	559	1,112	-325	0	0	0	0	0	0	0
Local governments	-285	-136	211	0	-227	-755	157	0	0	0	0
Privatization	6	1	2	0	0	0	0	0	0	0	0
Social Fund	-204	-364	-146	0	-60	0	0	0	0	0	0
Health Fund	4	-163	-147	417	12	219	0	0	0	0	0
Net project loans	924	1,538	1,613	3,067	2,855	6,177	6,171	2,627	-133	-148	-164
Of which: Onlending (through commercial banks)	-280	-105	-113	-649	-651	-3,355	-4,851	-120	-133	-148	-164
Financing Gap	2,577	1,233	898	6,779	6,621	9,759	7,456	5,397	751	0	0
World Bank	100	1,012	24	930	0	2,970	2,150	916	0	0	0
IMF	479	221	483	4,393	1,439	4,124	4,300	3,276	751	0	0
Others 3/	1,998	0	391	1,455	5,181	2,665	1,006	1,205	0	0	0
Financing for one-off items											
Government securities issued	0	0	0	0	0	0	0	0	0	0	0
					(Millions of Moldovan lei)						
Memorandum Items:											
Public and publicly guaranteed debt	58,049	57,550	57,989	67,387	78,575	102,606	120,798	142,300	158,154	171,473	184,339

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

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

2/ Includes banking sector resolution costs in 2016.

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

Table 4b. Moldova: General Government Budget, 2017–2027
(Percent of GDP, unless otherwise stated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and Grants	30.3	30.7	30.5	31.4	32.0	32.2	31.5	31.6	31.9	32.1	32.1
Revenues	29.8	30.5	29.7	31.0	31.0	30.8	30.7	31.2	31.4	31.7	31.7
Tax revenues	28.4	29.0	28.3	29.5	29.5	29.4	29.6	30.0	30.3	30.6	30.6
Personal income	2.1	2.1	1.9	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2
Corporate income	2.3	2.8	2.6	2.6	2.5	2.8	2.6	2.6	2.6	2.6	2.6
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
VAT	9.6	9.8	9.8	9.9	10.5	10.6	10.7	10.9	11.0	11.2	11.2
Excises	3.4	3.0	3.0	3.2	3.1	3.0	2.9	3.3	3.5	3.5	3.5
Foreign trade	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Other	1.0	0.9	0.9	1.0	0.9	0.8	0.7	0.7	0.7	0.7	0.7
Social Fund contributions	6.7	6.9	6.6	7.2	6.7	6.7	6.9	6.8	6.8	6.8	6.8
Health Fund contributions	2.1	2.2	2.3	2.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Non-tax revenues	1.4	1.5	1.4	1.5	1.5	1.4	1.2	1.1	1.1	1.1	1.1
NBM profit transfers	0.0	0.0	0.0	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Grants	0.6	0.2	0.8	0.3	1.0	1.4	0.8	0.4	0.5	0.5	0.4
Budget support	0.4	0.0	0.6	0.2	0.8	1.1	0.3	0.2	0.3	0.3	0.3
Project	0.2	0.2	0.2	0.2	0.2	0.3	0.5	0.2	0.2	0.2	0.2
Expenditure and Net Lending	31.0	31.5	32.0	36.7	34.6	38.4	37.5	36.5	35.9	35.7	35.4
Current expenditure	27.9	28.3	28.6	32.9	31.5	34.6	34.5	32.4	31.7	31.5	31.2
Wages	7.1	7.3	7.6	8.6	7.8	7.8	8.0	8.1	8.2	8.2	8.2
Goods and services	6.0	5.9	5.9	6.6	6.9	7.0	7.0	6.9	6.8	6.8	6.7
Interest payments	1.1	0.8	0.8	0.9	0.8	1.0	1.8	1.0	1.0	1.1	1.2
Domestic	0.9	0.6	0.6	0.7	0.6	0.8	1.4	0.9	0.8	1.0	1.1
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.1	0.1
Transfers	11.6	12.4	11.9	14.4	13.8	15.6	16.1	14.9	14.2	13.8	13.4
Transfers to economy 1/	1.4	1.8	1.1	1.9	2.2	2.4	2.3	2.3	2.3	2.3	2.2
Transfers to households	10.2	10.6	10.8	12.5	11.7	13.2	13.8	12.7	12.0	11.6	11.2
Other current expenditure	2.1	2.0	2.4	2.3	2.2	3.2	1.7	1.4	1.5	1.6	1.7
Capital expenditure	3.1	3.2	3.4	3.8	3.1	3.8	3.1	4.1	4.2	4.2	4.2
One-off revenue and expenditure items 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (incl. one-off items)	-0.7	-0.9	-1.5	-5.3	-2.6	-6.2	-6.0	-4.9	-4.0	-3.6	-3.3
Overall balance (excl. one-off items)	-0.7	-0.9	-1.5	-5.3	-2.6	-6.2	-6.0	-4.9	-4.0	-3.6	-3.3
Primary balance (excl. one-off items)	0.5	-0.2	-0.8	-4.7	-2.0	-5.3	-5.4	-4.2	-3.3	-2.8	-2.3
Financing (excl. one-off items)	-0.8	0.2	1.0	1.9	-0.1	2.7	3.6	3.3	3.8	3.6	3.3
Budget financing	-1.3	-0.6	0.3	0.4	-1.3	0.5	1.6	2.6	3.8	3.6	3.3
Central government	-1.1	-0.3	0.4	0.2	-1.2	0.7	1.5	2.6	3.8	3.6	3.3
Net domestic	-0.3	0.6	0.8	0.9	-1.9	1.0	3.1	4.1	5.0	4.7	4.4
Net foreign (excl. project loans)	-0.8	-1.2	-1.0	-0.6	0.7	-0.5	-1.6	-1.6	-1.2	-1.1	-1.1
Privatization	0.1	0.1	0.0	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Others	0.0	0.3	0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	-0.2	-0.1	0.1	0.0	-0.1	-0.3	0.1	0.0	0.0	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Fund	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health Fund	0.0	-0.1	-0.1	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Net project loans	0.5	0.8	0.8	1.5	1.2	2.2	2.0	0.8	0.0	0.0	0.0
Of which: Onlending (through commercial banks)	-0.2	-0.1	-0.1	-0.3	-0.3	-1.2	-1.6	0.0	0.0	0.0	0.0
Financing Gap	1.5	0.7	0.4	3.4	2.7	3.5	2.4	1.6	0.2	0.0	0.0
World Bank	0.1	0.5	0.0	0.5	0.0	1.1	0.7	0.3	0.0	0.0	0.0
IMF	0.3	0.1	0.2	2.2	0.6	1.5	1.4	1.0	0.2	0.0	0.0
Others 3/	1.1	0.0	0.2	0.7	2.1	1.0	0.3	0.4	0.0	0.0	0.0
Financing for one-off items											
Government securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Public and publicly guaranteed debt	33.0	30.4	28.1	33.7	32.5	36.9	39.2	41.4	41.4	40.5	39.3

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

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

2/ Includes banking sector resolution costs in 2016.

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

Table 5. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2017–2022

(Millions of Moldovan lei, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022
					Est.	Proj.
National Bank of Moldova						
Net foreign assets 1/	42,153	45,700	47,526	62,701	67,592	69,523
NFA (convertible)	43,045	46,855	48,513	62,700	67,598	69,517
Gross reserves	47,936	51,345	52,654	65,132	69,240	70,933
Reserve liabilities	4,891	4,490	4,141	2,433	1,642	1,416
Net domestic assets	-5,156	-2,143	-675	-7,062	-10,044	-4,313
Net claims on general government	7,964	7,956	9,347	4,758	192	2,992
Credit to banks	-9,217	-6,299	-5,403	-6,383	-3,704	1,623
Other items (net)	-3,903	-3,800	-4,619	-5,436	-6,533	-8,927
Reserve money	36,997	43,557	46,851	55,639	57,548	65,210
Currency in circulation	19,053	21,077	22,953	29,819	31,699	32,707
Banks' reserves	17,240	22,315	23,860	25,808	25,811	32,503
Required reserves	16,266	18,656	20,518	23,010	23,247	29,868
Other reserves	974	3,659	3,342	2,798	2,564	2,635
Monetary Survey						
Net foreign assets	67,877	71,780	74,503	89,983	97,303	96,545
NFA (convertible)	61,871	65,793	68,481	82,939	90,658	89,568
Of which: commercial banks	18,826	18,938	19,968	20,240	23,061	20,051
Foreign assets of commercial banks	23,237	22,641	23,342	23,788	27,094	25,145
Foreign liabilities of commercial banks	-4,411	-3,703	-3,374	-3,548	-4,034	-5,094
NFA (non-convertible)	6,006	5,987	6,022	7,044	6,645	6,977
Net domestic assets	9,233	11,378	15,448	17,641	22,457	23,987
Net claims on general government	11,455	12,353	13,438	14,142	11,264	6,964
Credit to economy	38,101	39,656	44,207	48,744	58,996	64,826
Moldovan lei	21,657	22,779	27,302	31,139	40,713	42,270
Foreign exchange	16,445	16,878	16,905	17,605	18,283	22,556
in U.S. dollars	962	985	982	1,023	1,030	1,077
Other items (net)	-40,323	-40,631	-42,198	-45,245	-47,803	-47,803
Broad money (M3)	77,110	83,159	89,951	107,625	119,760	120,532
Broad money (M2: excluding FCD)	53,043	58,334	63,137	75,891	83,080	83,215
Currency in circulation	19,053	21,077	22,953	29,819	31,699	32,707
Total deposits	58,003	62,081	66,997	77,806	88,062	87,825
Domestic currency deposits	33,937	37,257	40,184	46,072	51,382	50,508
Foreign currency deposits (FCD)	24,067	24,824	26,814	31,734	36,680	37,317
in U.S. dollars	1,407	1,448	1,558	1,843	2,067	1,782
Memorandum Items:						
Reserve money growth (percent change; annual)	11.2	17.7	7.6	18.8	3.4	13.3
Broad money growth (percent change; annual)	9.4	7.8	8.2	19.6	11.3	0.6
Credit to economy (percent change, annual)	-3.4	4.1	11.5	10.3	21.0	9.9
in lei	0.0	5.2	19.9	14.1	30.7	3.8
in foreign exchange ($ equivalent)	8.0	2.4	-0.2	4.1	0.7	4.6
Gross international reserves (millions of U.S. dollars)	2,803	2,995	3,060	3,784	3,902	3,388
Percent of domestic-currency broad money	90	88	83	86	83	85
Broad money multiplier	2.1	1.9	1.9	1.9	2.1	1.8

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

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

Table 6. Moldova: Financial Soundness Indicators, 2015–2022

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

	2015	2016	2017	2018	2019	2020	2021	2022	2022
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Mar	Jun
Size									
Number of banks	11	11	11	11	11	11	11	11	11
Total bank assets (billions of lei)	69.1	72.9	79.5	83.2	90.7	103.8	118.5	118.3	120.4
Total bank assets (percent of GDP)	56.7	54.2	52.9	43.8	43.1	50.3	49.0	48.9	49.8
Capital Adequacy									
Capital adequacy ratio	26.2	30.1	31.0	26.5	24.8	27.3	25.9	25.7	29.3
Liquidity									
Liquid assets (billions of lei)	28.7	35.9	44.1	45.4	45.9	52.4	57.6		
Total deposits (billions of lei)	50.2	54.8	59.9	63.5	68.4	79.6	90.1	83.9	85.8
Liquidity ratio (liquid assets in percent of total	57.2	65.5	73.7	71.6	67.1	65.8	63.9		
Liquid assets in total assets	41.5	49.2	55.5	54.6	50.6	50.6	48.6		
Asset Quality									
Gross loans (billions of lei)	38.2	34.8	33.5	35.5	40.4	45.6	56.4	58.1	60.2
Nonperforming loans (billions of lei)	3.8	5.7	6.2	4.4	3.4	3.4	3.5	4.1	4.1
Nonperforming loans as a share of total loans	9.9	16.4	18.4	12.5	8.5	7.4	6.1	7.1	6.7
Provisions to non-performing loans	85.5	81.8	80.6	86.6	93.7	101.0	104.2	91.8	96.4
Profitability									
Return on equity	12.8	12.0	11.1	11.6	14.6	8.7	12.4	16.0	15.9
Return on assets	2.1	2.0	1.8	1.9	2.5	1.5	2.0	2.7	2.7
Foreign Currency Assets and Liabilities									
Foreign currency denominated liabilities in total	52.8	46.8	44.1	42.1	42.1	42.9	42.9	43.2	42.9
Foreign currency denominated assets in total assests	42.5	38.9	36.8	34.7	34.4	35.5	35.8	35.7	35.5
Foreign currency deposits in total deposits	52.5	46.5	42.8	41.1	41.0	41.8	42.6	37.3	43.5
Foreign currency denominated loans in total loans	42.1	44.3	41.7	38.5	33.3	30.5	26.5	25.5	25.9

Source: National Bank of Moldova.

Table 7. External Finance Requirements and Sources, 2016–2026
(Millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
							Proj.				
Gross Financing Requirement 1/	528	795	1545	1511	1296	1943	2257	2197	2255	2245	2234
of which: fiscal financing requirements	154	139	73	51	387	375	468	316	236	32	0
Identified Financing Sources	847	1132	1683	1431	1497	1887	1043	1878	2377	2315	2379
Change in Gross Reserves (increase = +)	531	531	236	60	637	206	-556	51	508	134	145
Financing Gap	212	193	98	141	437	262	658	370	385	64	0
Official Financing	212	193	98	141	437	262	658	370	385	64	0
Identified program financing	177	150	65	94	182	181	450	170	99	0	0
European Commission	47	36	0	93	104	171	121	70	59	0	0
World Bank	62	5	60	1	54	0	159	100	40	0	0
AFD	0	0	0	0	0	0	88	0	0	0	0
Other official donors	68	108	5	0	24	10	82	0	0	0	0
Fund Program	35	44	33	46	255	81	208	200	286	64	0
of which: budget support	24	26	13	28	249	81	208	200	143	32	0

Sources: Moldovan authorities and IMF staff projections.

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

Table 8. Moldova: Decomposition of Public Debt and Debt Service by Creditor, 2021–23 1/

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

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
		(Percent total debt)	*(Percent GDP)*				*(Percent GDP)*		
Total	4617.4	100.0	33.8	1938.4	1870.7	2103.9	14.2	13.3	14.7
External	2650.9	57.4	19.4	226.0	210.6	340.3	1.7	1.5	2.4
Multilateral creditors[2,3]	2532.1	54.8	18.5	154.4	176.0	330.1	1.1	1.3	2.3
IMF	832.0	18.0	6.1						
World Bank	813.5	17.6	5.9						
ADB/AfDB/IADB	0.0	0.0	0.0						
Other Multilaterals	886.6	19.2	6.5						
o/w: list largest two creditors	580.7	12.6	4.2						
EIB	422.2	9.1	3.1						
EBRD	158.5	3.4	1.2						
list of additional large creditors	0.0	0.0	0.0						
Bilateral Creditors[2]	118.8	2.6	0.9	60.5	34.6	10.2	0.4	0.2	0.1
Paris Club	111.8	2.4	0.8	23.7	28.3	10.0	0.2	0.2	0.1
o/w: list largest two creditors	68.8	1.5	0.5						
JICA	49.6	1.1	0.4						
Government of Russia	19.2	0.4	0.1						
list of additional large creditors	0.0	0.0	0.0						
Non-Paris Club	7.0	0.2	0.1	36.8	6.3	0.2	0.3	0.0	0.0
o/w: list largest two creditors	6.5	0.1	0.0						
Government of Romania	5.7	0.1	0.0						
Novo Gaming M Technologies GMBH	0.9	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Domestic	1966.5	42.6	14.4	1712.4	1660.0	1763.7	12.5	11.8	12.3
Held by residents, total	1966.4	42.6	14.4	1712.4	1660.0	1763.7	12.5	11.8	12.3
Held by non-residents, total	0.1	0.0	0.0						
T-Bills	1024.4	22.2	7.5	1424.5	1531.6	1534.3	10.4	10.9	10.7
Bonds	857.4	18.6	6.3	212.2	96.8	207.4	1.6	0.7	1.4
Loans*	84.6	1.8	0.6	75.6	31.7	21.9	0.6	0.2	0.2
Memo Items:	103.7								
Collateralized debt[4]	n/a	n/a	n/a						
o/w: Related	n/a	n/a	n/a						
o/w: Unrelated	0.0	n/a	n/a						
Contingent liabilities	103.7		0.8	0.0	0.5	0.5	0.0	0.0	0.0
o/w: Public guarantees	103.7		0.8	0.0	0.5	0.5	0.0	0.0	0.0
o/w: Other explicit contingent liabilities[5]	n/a	n/a	n/a						
Nominal GDP	13682.1			13682.1	14048.0	14333.3			

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

2/ Some public debt is not shown in the table due to [confidentiality clauses/capacity constraints].(Include for all creditor groups where applicable)

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

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

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

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

Table 9. Moldova: Indicators of Fund Credit, 2020–2032 1/

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
		Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund Obligations Based on Existing Credit (millions of SDRs)													
Principal	53.4	35.3	10.3	41.6	76.5	57.0	44.5	52.4	53.3	50.4	37.4	30.3	10.1
Charges and interest	2.3	2.2	2.8	10.6	9.2	7.6	6.9	6.3	5.8	5.3	4.8	4.5	4.2
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)													
Principal	53.4	35.3	10.3	41.6	76.5	57.0	44.5	60.4	86.8	114.0	110.8	105.7	85.4
Charges and interest	2.3	2.4	2.9	13.5	17.1	17.8	16.8	15.9	14.1	11.5	9.8	8.2	6.6
Total Obligations Based on Existing and Prospective Credit													
Millions of SDRs	55.6	37.7	13.2	55.2	93.6	74.8	61.3	76.3	101.0	125.6	120.6	113.8	92.0
Millions of U.S. dollars	76.8	52.2	18.4	77.0	131.0	105.1	86.1	107.2	141.8	176.4	169.4	159.9	129.2
Percent of exports of goods and services	2.4	1.2	0.4	1.6	2.5	1.8	1.4	1.6	2.0	2.3	2.0	1.8	1.4
Percent of debt service 2/	32.3	26.2	7.6	32.9	44.9	43.7	38.3	43.9	47.4	47.9	45.4	44.4	39.9
Percent of GDP	0.7	0.4	0.1	0.5	0.9	0.6	0.5	0.6	0.7	0.8	0.7	0.6	0.5
Percent of gross international reserves	2.0	1.3	0.6	2.3	3.4	2.6	2.1	2.5	3.2	3.8	3.6	3.3	2.6
Percent of quota	32.2	21.8	7.7	32.0	54.3	43.4	35.5	44.2	58.5	72.8	69.9	66.0	53.3
Outstanding Fund Credit Based on Existing and Prospective Credit													
Millions of SDRs	346.7	368.5	494.8	595.1	719.7	707.3	662.8	602.4	515.6	401.6	290.8	185.2	99.8
Millions of U.S. dollars	478.8	511.4	688.9	830.7	1,007.5	993.7	931.2	846.4	724.4	564.2	408.5	260.1	140.1
Percent of exports of goods and services	14.9	12.2	15.4	17.2	19.1	17.2	14.8	12.5	10.0	7.3	4.9	2.9	1.5
Percent of debt service 2/	201.1	256.8	285.9	354.6	345.6	413.6	414.4	346.8	242.1	153.3	109.5	72.2	43.3
Percent of GDP	4.2	3.7	4.9	5.8	6.7	6.1	5.3	4.5	3.6	2.6	1.8	1.1	0.5
Percent of gross international reserves	12.7	13.1	20.6	24.5	25.8	24.6	22.3	19.5	16.2	12.3	8.7	5.4	2.8
Percent of quota	201.0	213.6	286.8	345.0	417.2	410.0	384.2	349.2	298.9	232.8	168.6	107.3	57.8
Net Use of Fund Credit (millions of SDRs)	133.5	21.9	139.1	100.3	124.7	-12.5	-44.5	-60.4	-86.8	-114.0	-110.8	-105.7	-85.4
Disbursements and purchases	186.9	57.1	149.5	141.9	201.2	44.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	53.4	35.3	10.3	41.6	76.5	57.0	44.5	60.4	86.8	114.0	110.8	105.7	85.4
Memorandum Items:													
Exports of goods and services (millions of U.S. dollars)	3,222	4,197	4,476	4,840	5,285	5,774	6,312	6,778	7,255	7,766	8,312	8,897	9,524
Debt service (millions of U.S. dollars) 2/	238.1	199.1	241.0	234.3	291.5	240.2	224.7	244.07	299.3	368.0	373.2	360.5	323.8
Nominal GDP (millions of U.S. dollars) 2/	11,530	13,682	14,048	14,333	15,022	16,249	17,489	18,781	20,103	21,518	23,033	24,654	26,389
Gross International Reserves (millions of U.S. dollars)	3,784	3,902	3,346	3,397	3,905	4,039	4,184	4,340	4,463	4,586	4,709	4,832	4,957
Average exchange rate: SDR per U.S. dollars	0.72	0.72	0.72	0.72	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71
Quota (millions of SDRs)	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5

Sources: IMF staff estimates and projections.

1/ Assume repurchases are made on obligations schedule.
2/ Total debt service includes IMF repurchases and repayments.

Table 10. Moldova: Schedule of Reviews and Disbursements 1/

Available on or after	Amount of Disbursement/Purchase (SDRs)			Percent of Quota			Conditions
	Total	ECF	EFF	Total	ECF	EFF	
1. December 20, 2021	57,150,000	19,050,000	38,100,000	33.13%	11.04%	22.09%	Board approval of the Arrangement
2. May 11, 2022	108,150,000	64,750,000	43,400,000	62.70%	37.54%	25.16%	Board completion of ad hoc review, augmentation of access, the inflation consultation clause; and based on observance of continuous performance criteria, and prior action
3. July 14, 2022	20,650,000	9,525,000	11,125,000	11.97%	5.52%	6.45%	Observance of end-June 2022 performance criteria, continuous performance criteria, and completion of first review
4. October 14, 2022	20,650,000	9,525,000	11,125,000	11.97%	5.52%	6.45%	Observance of end-September 2022 performance criteria, continuous performance criteria, and completion of second review
5. January 24, 2023	70,950,000	19,050,000	51,900,000	41.13%	11.04%	30.09%	Observance of end-December 2022 performance criteria, continuous performance criteria, and completion of third review
6. July 24, 2023	70,950,000	19,050,000	51,900,000	41.13%	11.04%	30.09%	Observance of end-June 2023 performance criteria, continuous performance criteria, and completion of fourth review
7. January 24, 2024	100,600,000	19,050,000	81,550,000	58.32%	11.04%	47.28%	Observance of end-December 2023 performance criteria, continuous performance criteria, and completion of fifth review
8. July 24, 2024	100,600,000	19,050,000	81,550,000	58.32%	11.04%	47.28%	Observance of end-June 2024 performance criteria, continuous performance criteria, and completion of sixth review
9. January 24, 2025	44,562,500	19,037,500	25,525,000	25.83%	11.04%	14.80%	Observance of end-December 2024 performance criteria, continuous performance criteria, and completion of seventh review
Total	594,262,500	198,087,500	396,175,000	344.50%	114.83%	229.67%	

Source: IMF staff estimates.

1/ Moldova's quota is SDR 172,500,000.

Appendix I. Letter of Intent

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

Chişinău, September 7, 2022

Dear Ms. Georgieva:

1. The attached provide updates to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) of April 26, 2022. The MEFP reports on recent economic developments, reviews progress in implementing Moldova's program under the ECF-EFF and sets out macroeconomic and structural policies that we plan to implement.

2. The spillovers from the war in Ukraine and international sanctions on Russia and Belarus continue to weigh on the economic outlook. Higher food and energy prices, the influx of refugees, and trade disruptions are leading to higher inflation and, widening current account and fiscal deficits, stagnating economic growth. We resorted to monetary policy interventions and foreign exchange buffers as the first line of defense to contain pressures in the financial sector and the foreign exchange market. With support from the Fund and other international partners, our policies aim to mitigate the challenges posed by the multiple crises.

3. Notwithstanding a challenging environment, we have managed to keep program implementation on track. We met all quantitative and indicative targets for end-June 2022. We believe external factors, including energy and food supply shocks, remain the key drivers of inflation and expect inflation to revert to the NBM target band by 2024. The structural benchmark to appoint the head of the Anti-Prosecution Office was met in June, well-ahead of schedule. We also met the structural benchmarks on publishing a comprehensive tax expenditure analysis, expanding the IT-based staff registry, and operationalizing the integrated taxpayer register. Amending emergency liquidity assistance regulation was implemented with a delay in August, while the structural benchmark on strengthening the institutional autonomy of the NBM is proposed to be reset to end-October. We are proposing one new benchmark, reflecting our commitment to the program's overarching objectives.

4. Given the overall strong performance under the program and the policies in the enclosed MEFP, we request the completion of this review and the release of the related disbursement and purchase in the total amount of SDR 20.65 million, which will bring total drawings under the arrangement to SDR 185.95 million. We also request modification of the inflation consultation clause due to persistent external shocks; modification of the performance criteria on the cash deficit of the general government, and indicative targets, in line with the updated projections and agreed policies; and setting end-December 2023 targets. We believe that the solid policies and measures outlined in the attached update of the MEFP are appropriate to achieve the program objectives for sustaining

the economic recovery and the major structural and development reforms needed to transform it. We stand ready to take additional measures, as appropriate, to achieve these objectives. We will consult with IMF staff before adopting such measures, or in advance of revisions to the policies contained in this MEFP, or before adopting new measures that would deviate from program goals, consistent with IMF policies on such consultations. In line with our commitment to transparency, we authorize the IMF to publish this letter, the MEFP and its attachments, and the accompanying staff report.

Sincerely yours,

/s/
Natalia Gavrilița
Prime Minister

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

/s/
Octavian Armașu
Governor
National Bank of Moldova

/s/
Dumitru Budianschi
Minister of Finance

/s/
Sergiu Gaibu
Minister of Economy

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

Attachment I. Memorandum of Economic and Financial Policies

I. Macroeconomic Developments and Outlook

1. **The war in Ukraine and international sanctions on Russia and Belarus worsened an already complex economic and social landscape but the EU candidacy status offers an anchor for reform progress.** While the impact of the war is yet to fully materialize, pressures appear contained so far. Only a fifth of the refugees out of the estimated equivalent of 19 percent of the population crossing the Moldovan border have remained in the country. The Moldovan leu depreciated by almost 7 percent since the beginning of the war and foreign exchange market pressures have since abated. After declining by about 10 percent, bank deposits are recouping steadily to pre-war levels. However, recent security incidents in the region of Transnistria have led to growing concerns about Moldova being drawn into the conflict. Against this backdrop, we applied for the EU membership in March and the European Council granted the candidate status for EU accession on June 23, contingent on specific steps in the areas of rule of law, anti-corruption, eliminating vested interests, and economic reforms.

2. **With the duration and consequences of the war highly uncertain, the recent crisis continues to weigh heavily on the Moldova's economy.**

- *Growth.* The economy grew by 1.1 percent in 2022Q1, annually, supported by net exports and public consumption. Exports appear to be more resilient to trade disruptions while the service sector continues to benefit from reorientation of trade flows from Ukraine through Moldova's transport infrastructure. However, GDP growth is expected to stagnate in 2022 held back by the adverse effects of drought conditions on agricultural production, supply disruptions and rising input costs on the agricultural sector and worsening global economic outlook.

- *Inflation.* Annual CPI inflation increased steadily to 33.5 percent in July 2022, driven by surging energy, commodity, and food prices on global markets, as well as adjustments in energy tariffs.

- *Fiscal position.* The general government deficit reached 1.3 percent of GDP in 2022H1. Revenue performance was resilient, reflecting the inflationary impact on value-added taxes, the residual impact of robust economic activity in 2021 on corporate income taxes, and higher-than-expected non-tax revenues. However, excise and foreign trade taxes slowed down reflecting the impact of the war. With trade-related revenues representing about 40 percent of total revenue last year, downside risks to the revenue base from trade disruptions remain elevated. Policies to mitigate the crisis shored up spending on transfers (30 percent), goods and services (14.5 percent), and wages (12 percent). However, substantial expenditure pressures continue to stem from escalating energy prices, inflation, and support for the most vulnerable and refugees. There is limited uptake of domestic securities.

- *External*. The current account deficit widened to US$0.5 billion in 2022Q1 while gross foreign exchange reserves recovered to US$3.6 billion (about 5 months of prospective imports of goods and services) as of end-June 2022, providing substantial cushion against exchange rate pressures and market uncertainty.

- *Monetary and financial policies*. Recognizing the risk of high inflation becoming entrenched, the National Bank of Moldova (NBM) continued the tightening cycle and hiked the base rate and liquidity reserve requirements. The banking sector withstood the wave of liquidity pressures during February to April 2022. However, credit risks, especially to the retail lending portfolio, are growing. Nevertheless, the increase in the systemic buffer rate, the restrictions on dividend payout, borrower-based measures, and tighter credit worthiness assessment regulations will boost capital buffers and help contain excessive risk-taking.

3. Adverse risks to the outlook remain significant. A sharper-than-anticipated increase in energy prices or disruptions in energy supply could impair public and private balance sheets. Uncertainty surrounding energy security due to the country's dependence on supply from Russia and Transnistria could materialize in the disruption of supplies and thus exert sizeable fiscal costs. Food security risks may also amplify as the war persists owing to significant food imports from Ukraine, but also given the drought conditions. Escalation of the war closer to the Moldovan border could hurt confidence, exert pressure on the Moldovan lei, undermine domestic securities markets, culminate into system-wide deposit runs, and impose challenging policy trade-offs. Rising costs of living could threaten social cohesion. In addition, a further worsening of the growth outlook in Europe and agricultural conditions could weigh on net exports. Our first line of defense against these considerable risks is our steadfast implementation of the comprehensive package of reforms. Financial support from the IMF and other multilateral and bilateral partners should help anchor confidence in the face of adverse shocks.

4. Most of the conditionality for the First Review were implemented, reflecting our strong commitment to the program despite the challenging environment. We met all the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-June 2022. Our structural reform agenda is also progressing apace, with all but one end-June structural benchmarks (SBs) implemented. One of the end-December SBs is also met, well in advance.

- ***End-June SBs***: We published the comprehensive tax expenditure analysis to serve as an input for identifying tax relief provisions for phasing out. We expanded the coverage of the comprehensive IT-based staff registry to all central government employees. We operationalized the integrated taxpayer register in June 2022. We adopted the amendments to the ELA regulation and the internal ELA procedures in August 2022. The end-June SB on strengthening the provisions for the institutional autonomy of the NBM was not met and is proposed to be reset to end-October 2022 (¶14) to allow more time for consultations with all stakeholders.

- ***End-December SBs***: We appointed the head of the Anti-Prosecution Office (APO) in June well-ahead of the December program deadline who assumed office on August 1, 2022.

II. Policy Framework

5. The current crisis emphasizes the need to push forward with governance reforms and address developmental needs to create conditions for sustainable and inclusive growth. On the fiscal front, complementary efforts to strengthen revenue and spending outcomes while advancing energy and SOE reforms would help preserve buffers. Implementing the inflation targeting framework resolutely, leveraging on an independent central bank, would help ensure price stability. In the financial sector, improved regulatory and macroprudential toolkits should contain financial stability risks. Once the crisis dissipates, we will redirect our efforts to a set of macro-critical policies and ambitious structural reforms to bolster the rule of law, reduce corruption, and strengthen fiscal and financial governance, facilitate external financing, and create a solid foundation for strong and inclusive growth.

A. Fiscal Policy

6. We remain committed to the policy objectives of responding to the compounding shocks of war in Ukraine, energy insecurity, high inflation, and persistent pandemic while taking steps to address development goals.

- In May, we approved a *first supplementary budget* in line with the macroeconomic framework agreed with the IMF staff to bring the general budget deficit to 7.2 percent of GDP subject to financing availability. The supplementary budget allocated more support to secure energy supplies and supported households and businesses against higher energy prices (1.2 percent of GDP), provided for humanitarian needs and additional wage costs (0.4 percent of GDP), and further replenished the flexible emergency funds in the budget as a contingency (0.3 percent of GDP).

- However, higher-than-expected revenue collection and external grants warrant the approval of a *second supplementary budget* to effectively address hardship posed by high food and energy prices on the vulnerable. We are committed to a deficit of 6.2 percent of GDP in 2022 (**prior action**). We will provide additional targeted support through: (i) two one-off payments to pensioners, capped at a threshold, covering 87 percent of the current beneficiaries (0.4 percent of GDP); (ii) a structural pay increase for public sector employees in the two lowest salary segments (0.1 percent of GDP) and a one-time payment for all civil servants (0.3 percent of GDP), (iii) an increase in the allocation to the energy vulnerability fund that provides targeted support for rising energy costs (0.2 percent of GDP), and (iv) additional allocations to social programs such as school meal programs, as well as heating and child allowances (0.1 percent of GDP).

- Our fiscal policy priorities for 2023 will focus on structural changes to improve the impact of our social assistance programs, addressing capacity constraints in the civil service, and securing external grants to meet our financing needs. We are committed to: (i) increasing pensions in line with the current inflation-indexation formula, and implementing the Silver Fund program that will increase benefits to a small group of older pensioners; (ii) scaling up the Ajutor Social program by revisiting average benefits, expanding eligibility, or applying alternative targeting methods; (iii) continue gradually increasing public sector wages to mitigate the purchasing power erosion and to attract and retain qualified staff; and (iv) continue implementing the targeted energy poverty reduction scheme. In the event that further shocks materialize and additional support for vulnerable groups is required, we will reprioritize spending within the budget and reduce capital expenditures to support priority spending needs. We will target a deficit of 6 percent of GDP in 2023 to ensure support for economic recovery. However, the risks around the baseline are exceptionally high and firmly tilted to the downside and the expenditure envelope underpinning this fiscal stance may constrain our ability to react to emerging fiscal needs, including the extension of the energy poverty reduction scheme to cover the full 4 months of the winter season. In this context, and to retain adequate fiscal buffers and reduce reliance on short-term domestic financing, we plan to seek additional external financial support of at least MDL 2.5–3.5 billion (0.8–1.2 percent of GDP) in the form of grants and concessional loans. Should further risks materialize, the appropriate use of these buffers will be discussed with staff in the context of future reviews.

- Over the medium term, we remain committed to meeting our fiscal sustainability objectives while pursuing our developmental goals. We will focus on measures to support higher revenue collection and greater efficiency in tax administration, while improving budget execution. The nominal depreciation and response to shocks will increase public debt towards 45 percent of GDP, the level anchoring the program. We are committed to a declining path over the medium term once the current crises dissipate to retain sufficient buffers against contingent liability risks and shocks. Our medium-term budget framework will target general government deficits of about 3.5-5.0 percent of GDP in 2024–26. Underpinning this will be reforms to mobilize domestic revenues, improve tax administration, and development-focused spending—prioritizing capital spending on roads, energy diversification, and water, investments in health and education, as well as supporting SME growth and job creation—supported by enhanced spending efficiency, domestic market development, and strengthen fiscal governance and transparency.

Reforms to Strengthen Revenue Mobilization

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

- **Identify tax relief provisions for phasing out.** We will adjust the relevant secondary legislation to institutionalize tax expenditure reviews to be part of our annual state budget planning process **new end-March 2023 SB**. Building on the progress made, we intend to extend the tax expenditure analyses to include other taxes (excise, customs, and/or property). Moving forward, we intend to prepare a proposal identifying tax expenditures to be phased out based on cost-benefit analysis. This will help eliminate abusive practices, reduce tax system inefficiencies, and mobilize domestic revenues.

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

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

- **Advance customs reforms in a number of important areas.** The Parliament approved a new customs code in August 2021, developed in consultations with the EU, that aims to align our customs regulations and procedures with international best practices and bring it closer to EU directives effective January 1, 2023. In line with our commitments with the EU and to strengthen deterrence capacity of anti-smuggling policies, we amended the relevant legislation (i) to reduce the legal threshold for determining smuggling as a criminal offence and raised administrative fines for such violations, and (ii) to define the smuggling offense base to include duties, taxes, and other fees. We also intend to ratify the WHO Protocol to Eliminate Illicit Trade in Tobacco Products in the course of this program, with the aim of reducing revenue leakages and smuggling.

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

Reforms to Improve Budget Quality and Fiscal Transparency

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

- **Institutionalize spending reviews.** We see spending reviews as critical for identifying the scope for efficiency improvements and cost effectiveness in key sectors. We completed a spending review for the education and agriculture sectors and have launched a spending review in the health sector. With a view to implement relevant recommendations from the completed spending reviews, we plan to consolidate the network of universities by absorbing smaller higher education institutions and merging research institutes with universities, while directing efficiency gains towards improving the educational process.

- **Strengthen fiscal responsibility framework and budget transparency.** We will review the performance of our fiscal responsibility framework in place since 2018 with a view to reduce the procyclicality of the deficit rule, limit escape clauses, and strengthen fiscal oversight and budget transparency. To this end, we are regularly monitoring and publishing on the Ministry of Finance webpage the information about budgetary allocations on refugee-related spending.

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

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

- **Strengthen debt and cash management.** Despite recent progress, especially with respect to data quality and inter-agency coordination, financial instruments are limited and concentrated in short-term maturities, and the government securities market remains shallow. We submitted to Parliament the amendment to the law on public debt (Law 419/2006). Among others, the amendment aims to: (i) improve the quality of the statistical data of the public sector debt (based on IMF mission recommendations), (ii) regulate the direct issuance of government securities to retail investors and their transactions on the primary and secondary markets, (iii) regulate the monitoring of the primary dealers activity, and (iv) regulate the authorization process of contracting debt and issuing guarantees. We expect the law to be adopted by Parliament in October. To deepen the debt market for government securities and facilitate domestic financing, we will strengthen our operational capacity, and take steps to further develop the primary dealer system and develop a new platform for retail investors.

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

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

- **Strengthen our public investment management (PIM) framework to enhance the execution and quality of public investment and close large infrastructure gaps.** Our PIM framework is broadly in line with good international practices, but inconsistent application and narrow coverage significantly limit its effectiveness. Guided by the 2019 PIMA report recommendations, we aim to strengthen the planning, allocation, and implementation stages of our PIM cycle. To this end: (i) in March, we published on the Ministry of Finance webpage five reports on the execution of investment projects undertaken by the developmental funds (Regional Development Fund, Road Fund, Environment Fund, Energy Efficiency Fund, and foreign-financed projects) in the previous fiscal year, with a requirement to update these reports annually as part of the budgetary preparation and reporting; and (ii) we will amend legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and development funds (**end-September 2022 structural benchmark)**. To enhance transparency and further strengthen the public investment management framework, we mandated publication of supporting documentation, as required by Section 2 of Regulation 1029 on public capital investments, for projects approved for the implementation by the State budget, externally funded projects, and developmental funds.

- **Strengthen the unitary pay system in the budgetary sector.** We plan to undertake an analysis of the unitary pay system in the budgetary sector to improve the wage-compression ratio, strengthen the budgetary process, and address critical staffing needs. Towards this objective, and leveraging recommendation of recent IMF technical assistance, we plan to improve reporting of public funds going towards employee expenses to include public institutions, continue to consolidate reference values in the government pay scheme, and review the cost-of-living adjustment mechanism for public sector pay. In December 2021, we launched a fully operational comprehensive IT-based staff registry, as a pilot, covering employees of the Ministry of Finance and the STS; and are working on expanding the system to cover the Customs Service, the Financial Inspectorate, and the Public Procurement Agency. We have expanded the coverage of a comprehensive IT-based staff registry to all central government employees (**end-June 2022 structural benchmark**).

- **Ensure the sustainability of the pension system.** Our pension system has significant challenges, including a narrow contribution base, an ageing population and falling replacement ratios, and a deteriorating deficit due to double indexation and policy reversals. We corrected the policy slippage of reducing the retirement ages for men from 63 to 62 years and for women from 59 to 57 years, which had put our pension system under significant pressure, by repealing in parliament the relevant legislation. In consultation with international partners, we also modified the indexation formula to ensure viable replacement ratios. Also, we raised the minimum pension by 68 percent to MDL 2,000 in October 2021 to align with the calculated subsistence level. In April 2022, we raised the pension components below the average monthly salary by 14 percent, in line with inflation, and topped up all pensions by a fixed amount computed as half of real GDP growth applied to the amount of average pension. In consultation with the World Bank, we intend to continue broadening the contribution base to address sustainability risks. We intend to make the pension system more equitable by introducing changes to the Silver Fund program, which will increase benefits to a small group of older pensioners, taking into account age and seniority at work.

- **Enhance social assistance programs.** In consultation with the World Bank, we initiated the reform of the Ajutorul Social program which strives to increase the allocations and improve the targeting of social assistance programs, by shifting resources from categorical (including ad-hoc categorical payments) to means-tested payments, and by increasing the coefficients given to the most vulnerable members of recipient families, and by making remote application to means-tested programs operational. The reform also includes a simplification of the proxy test, clarifying qualification criteria for Ajutorul Social and APRA (cold-season benefit) and improving the interoperability of information systems. We commit to updating our Poverty Reduction Strategy Paper (PRSP) by end-December 2022.

- **Launch a well-targeted energy poverty reduction program.** Towards this objective, we are committed to implement the energy poverty fund to protect the vulnerable from rising energy costs and support the transition of households towards more energy-efficient appliances. The energy poverty reduction scheme will target about 80 percent of the Moldovan population progressively reducing the extent of the energy subsidy across 5 categories of households (including a non-eligible category) based on welfare indicators, income proxies, family characteristics, type of heating system, and consumption levels. Under the current energy prices, the cost of the subsidy is estimated to be about MDL 1 billion a month during the 2022–23 heating season. The subsidy will be implemented through the Energy Vulnerability Reduction Fund (Law approved by the Parliament on July 28, 2022).

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

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

B. Monetary Policy

10. Inflation materialized within the outer band of the inflation consultation clause in June 2022. Inflation surged to 31.8 percent (y/y) in June driven by energy and food price increases. There is also continued pass-through of imported goods to domestic prices from the depreciated exchange rate. Despite significant tightening of monetary and liquidity conditions, the NBM and IMF staff share the view that high inflation is likely to persist into the fourth quarter of the 2022 before easing gradually. With the modification of the inflation consultation band, inflation is expected to fall within the consultation band in September and is projected to return to the target only by 2024.

11. The NBM has moved swiftly to provide a comprehensive response to rising inflation and external pressures.

- ***Policy rate.*** On May 5 and June 3, we increased the policy rate by 3 percentage points each time to 18.5 percent to combat the accelerating and persistent inflation which reached 31.8 percent in June. The NBM stands ready to continue tightening monetary policy stance in a data-dependent manner to address second round effects from rising commodity prices and anchor expectations.

- ***Reserve requirements.*** As part of the efforts to temper inflationary pressures, we raised the reserve requirement ratio for MDL and non-convertible currencies by 8 percentage points to 34 percent since January and also increased the required reserves for foreign currency by 9 percentage points to 39 percent in July. The NBM stands ready to continue to adjust reserve requirements, if needed.

- ***Foreign exchange intervention.*** Given the exceptionally challenging market conditions, the NBM undertook sizeable foreign exchange sales equivalent to 10 percent of FX reserves to limit excessive exchange rate volatility during February to April 2022. The MDL depreciated by about 7 percent as of end-June. However, the central bank interventions have since eased and the improving market conditions facilitated a partial reversal of foreign exchange reserves losses incurred during February-April. We are mindful that the scope and duration of the war-induced confidence pressures and energy and food inflation remain uncertain. We face a difficult policy context involving the need to ensure that banks have sufficient liquidity while also having to preserve buffers to forestall emerging shocks in a complex environment. We therefore stand ready to allow necessary exchange rate adjustment and will continue to manage reserves conservatively, limiting interventions to counteracting excessive exchange rate volatility while also actively communicating our intervention strategy to the market.

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

C. Financial Sector Policies

12. Financial sector stability is a necessary condition for achieving our economic objectives. Thanks to past reforms, the banking sector withstood severe liquidity pressures due to the war in Ukraine. Since the war began in February through end-April, individuals withdrew close to 11 percent of their bank deposits in FX and MDL, while corporates mostly switched about 3 percentage points of their portfolio to FX and total deposits portfolio of legal entities decreased by 5 percent. We deployed a full range of tools, including MDL standing facilities, FX swaps and interventions while ensuring a steady supply of FX banknotes. With improved market confidence, total deposits have now recovered to about 5 percent below the pre-war level, while corporate deposit dollarization reverted to pre-war level of 45 percent. The system-wide liquidity coverage ratio (LCR) at 224 percent at end-June is above the prescribed level but lower than the pre-crisis level of 358.3 percent (end-2021), partly reflecting the recent increases in reserve requirements. We are closely monitoring the liquidity position of each individual bank all of which are currently above the prescribed level. We have adopted the amendments to enhance the ELA framework as well as the internal procedures (**end-June 2022 SB**). We are prepared to undertake other contingency measures to address the buildup of liquidity risk. With a capital adequacy ratio of 29.3 percent at end-June, banks remain well capitalized to withstand significant loan losses. Nonperforming loans appear manageable at 6.7 percent at end-June, but a significant worsening of debtor balance sheets especially from purchasing power erosion due to high inflation and rising interest rates could erode capital buffers for some banks. To conserve the capital position of banks in an environment of heightened uncertainty, we have advised banks against any dividend payouts until the shock is weathered. Profitability continues to be favorable with ROE and ROA at 15.9 and 2.7 percent respectively at end-June 2022.

13. We have taken actions to mitigate excessive credit growth in certain segments and will remain vigilant on the buildup of systemic risk. Overall credit growth remains robust but below its long-term average and retail credit growth accelerated strongly in 2021. Reflecting these developments, we have maintained the board-based countercyclical capital buffer rate at 0 percent while raising the systemic buffer rate by 2 percentage points calibrated to banks' retail credit exposure. This together with the activation of borrower-based tools in July 2022, following the approval of the responsible lending regulation in May 2022, as well the tightening of our monetary stance will ensure that risks related to rising retail credit are mitigated.

14. We remain committed to further strengthening the institutional autonomy and governance of the NBM, in consultation with the IMF. Against a highly uncertain background and soaring inflation, the central bank's independence remains critical for ensuring effectiveness in preserving macroeconomic and financial stability. In this regard, we are strongly committed to fully implement safeguards recommendations. In particular, in consultation with IMF staff, we plan to adopt amendments of relevant legislation to strengthen provisions for (reset as **end-October 2022 structural benchmark**, previously end-June 2022 structural benchmark): (i) procedures and criteria for the appointment, resignation, and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) managerial responsibilities for the governor and the executive board.

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

16. We completed the transparency of shareholders and beneficial owners process in one non-systemic bank. Even though the implementation of steps prescribed by the shareholder removal legal framework were suspended at an early stage, the strengthened framework for the finality of supervisory decisions allowed for the process to be finalized, ensuring new fit-and-proper ownership in this bank. The NBM continues to take all necessary steps in ensuring proper corporate governance and professional management of the bank.

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

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

19. We are improving oversight of the non-bank sector's viability, corporate governance, and risk management practices. We have adopted amendments to Law 192/1998, to strengthen provision safeguarding the NCFM's autonomy. Going forward, our immediate focus remains in line with the prior commitment to transfer the regulatory and supervisory responsibilities for the oversight of non-bank credit organizations, savings and lending associations, credit history bureaus, insurance companies, and insurance intermediaries to the NBM effective July 1, 2023. We are enhancing intra-authority coordination to intensify preparations, including via a comprehensive action plan prescribing steps to clarify the legal framework, advance capacity building, foster business continuity, implement necessary regulatory changes, and manage communication.

- ***Nonbank credit organizations.*** The Non-Bank Credit Organization (NBCO) loans have edged up more recently, accounting for 16.6 percent of financial sector assets in 2022Q1. Despite having no net open currency positions, the large share of FX lending at about 30 percent of total loans exposes them indirectly to exchange rate credit risk and funding from non-residents to maturity and liquidity risks, as sudden funding interruptions could undermine rollover efforts. After peaking at 14.9 percent during the pandemic period – mostly as a result of change in loan classification - NBCOs NPL's declined to 12.8 percent in 2022Q1. We have strengthened the law on non-bank credit institutions to facilitate responsible lending by including provisions for due diligence on debtors' repayment capacity and collateralization levels. Towards this objective, we approved regulations on loan-to-value (LTV) and debt-service-to-income (DSTI) ratios as well as tighter credit worthiness assessment for NBCO's in May 2022, which will come into effect on September 1, 2022. In close coordination with NBM, we will upgrade the reporting requirements of NBCOs to closely monitor their compliance with the responsible lending regulation and aim to have it ready by July 2023.

- ***Insurance Companies.*** In April 2022, we adopted a new law on insurance and reinsurance activity to transpose Pillar II (corporate governance) and Pillar III (reporting standards) of the solvency II framework. We plan to conduct a gap analysis for all insurers to evaluate their readiness for the subsequent implementation of Pillar I. We approved a financial recovery plan for one insurer and imposed a special administration for another insurer to foster regulatory compliance. We are committed to implement resolution mechanisms for insurers that do not meet prudential requirements to safeguard assets, in accordance with new legislation. Also, in April 2022, we adopted a new law on Motor Third Party Liability Insurance, which becomes effective on April 1, 2023.

20. We plan to strengthen the regulatory framework for capital markets. Towards this objective, we plan to consolidate supervision of capital markets by transferring the supervisory competencies of the Central Securities Depository (CSD) from the NBM to the NCFM. As a first step we will set up an intra-agency coordination committee to prescribe the process for supervision, ownership, and governance of the CSD under the new regulatory framework for capital markets.

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

22. We are committed to protecting our financial sector from illicit financial flows. Towards this end, we will continue to strengthen our Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime, particularly by addressing vulnerabilities identified in the 2019 MONEYVAL assessment. To enhance the ability of financial institutions to play their role of gatekeepers, we have been conducting outreach to the sector on better understanding risks, the implementation of a risk-based approach, and more effective application of preventive measures focusing on suspicious transactions reporting, politically exposed persons, and the identification of beneficial owners. We commit to continuing these efforts, including through targeted supervisory activities. We will also strengthen the capacity of regulatory authorities and improve the coordination among all relevant actors, including regulatory authorities, law enforcement, and private sector. We have adopted a National AML/CFT Strategy for 2020–25 and will update our National Risk Assessment, develop the accompanying action plan, and publish the results.

D. State Owned Enterprises and Energy Sector Reforms

23. Reforming the SOE sector remains a priority to improve efficiency and contain fiscal risks. Our SOE sector undermines competition, productivity, and private investment, while posing significant fiscal risks. The sector suffers from weak performance associated with poor governance and oversight, noncommercial mandates, and weak capacity and independence of supervisory boards. As a first step, to enhance oversight capacity and fiscal risk monitoring, the Public Property Agency requested in February all SOEs at the central government level to submit quarterly financial statements, which are regularly shared with the Ministry of Finance. We will undertake a comprehensive assessment of the financial position of all SOEs operating at the central government level, with a view to identify corrupt practices and legacy contracts that contribute to SOEs fiscal costs. Towards this objective, we have identified SOEs that are economically active (169 out of 268), and we are working with these entities on improving the quality of data reporting. This will be facilitated by adjusting the relevant legal and regulatory framework. The government will develop and adopt a state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization, or liquidation, as well as plans to strengthen their governance (**end-September 2022 structural benchmark**). Going forward, we will expand fiscal and financial monitoring of SOEs to the local government level.

24. We have responded swiftly to the energy crisis, but the recurring shocks call for frontloading energy security efforts. Tariff adjustments are a critical element of the policy response to import price increases, with additional fiscal support subject to the availability of resources in the budget.

- ***Natural Gas***

    - Import prices—partly indexed to spot natural gas prices—have increased sharply over the past months. We increased domestic gas prices in January and again in August to reflect imported prices. We remain committed to keep domestic tariffs aligned with import prices going forward. We provided direct support to residential consumers up to 150m^3 and up to 500m^3 for non-residential clients in a transparent way during the winter 2021–22 heating season. To protect the most vulnerable, we will continue leveraging existing well-targeted social assistance programs. We will implement a new, more targeted framework to support households during the winter 2022–23 heating season (see ¶9). We will also focus on improvements in energy efficiency, including as part of the new targeted support scheme. In agreement with the Energy Community Secretariat, ANRE will issue the final certification for the unbundled gas Transmission System Operator (TSO), by August 2023.

    - We secured a EUR 300 million EBRD credit line for gas storage and emergency purchases in June which will be used to build storage. We have also updated our broader contingency plan and policy options to be prepared for a scenario in which energy prices continue to soar and/or there are significant disruptions in supply. Natural gas supplies from Azerbaijan and Romania are viable alternatives. As a member of the EU's energy platform, we will leverage regional cooperation to advance efforts to reduce gas demand and address infrastructure bottlenecks and inefficiencies. Specifically, in line with the South-East European regional action plan of the EU energy platform, we will ensure that customs regulations enable Moldova to operationalize virtual reverse pipeline flows.

- Electricity. The onset of the war has led to supply and price uncertainty. We have secured a short-term contract with Transnistria and source about one third of our electricity from Ukraine. We are also exploring alternative electricity supplies from Romania, but capacity might be constrained, and prices would be very high. Electricity tariffs were adjusted twice—in March and June—by a total of over 60 percent to reflect higher costs. They are now well aligned. We also provided a direct compensation to the Central Electricity Supplier (single buyer of renewable and cogenerated electricity linked to district heating) to mitigate the impact of rising prices. We completed the legislative and regulatory frameworks towards full unbundling of the electricity sector. The 2020 Wholesale Electricity Market Rules (including a functioning balancing mechanism for electricity exchanges) entered into pilot phase on January 1, 2022 and became effective in June.

E. Rule of Law and Anti-Corruption

25. Strengthening the rule of law and addressing corruption remain critical priorities. Our predominant aim is to implement reforms to lay the foundation for strong rule of law in Moldova. Towards this end, our immediate goals include cleansing the system and developing a rigorous framework to preserve the independence and accountability of judicial actors, which is critical to addressing corruption, reducing avenues for political influence, instilling more trust in our court system, and improving access to and delivery of justice. We will ensure that due process is in place to hold corrupt actors and government officials accused of using public office for private gain fully accountable. These priorities are contained in our Strategy on Judicial Independence and Integrity, which was adopted by Parliament in early-December 2021. We commit to carrying out these reforms in line with constitutional principles and internationally recognized norms and standards. We are also committed to combatting high-level corruption, eliminating bad actors in the public sphere, and to strengthening the integrity, capacity, and independence of key anti-corruption institutions. We are currently reviewing our national anti-corruption strategy, which expires at the end of 2022, to inform the preparation of a new strategy.

26. We recognize the importance and need to strengthen the independence, integrity, and effectiveness of the judiciary. We will continue to modernize our judicial system in line with recommendations by international bodies and experts. We endeavor to continue reforms to the current system of recruitment, appointment, evaluation, promotion, and disciplining of judges. Towards this objective, in March 2022, we passed legislation governing an extraordinary assessment of the judicial sector based on a transparent process, formulated in consultation with relevant international bodies, and this process is underway. We will also continue to increase the transparency and accessibility of information available to the public on judicial activities, including by curtailing the use of closed hearings, removing the closed-door policy of the Superior Council of Magistrates (SCM) decision-making, and ensuring SCM decisions to be accompanied by reasoned explanations. Recent constitutional amendments pave the way for important reforms to the SCM in line with recommendations by the Venice Commission, namely on the removal of ex officio members. Transforming the Supreme Court of Justice (SCJ) into a court of cassation with a view to improve the quality of case law remains one of our top priorities. We will continue ongoing reforms to optimize and consolidate our court system by addressing inefficiencies, improving court management, and strengthening dispute resolution systems.

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

28. We are fully committed to tackling entrenched corruption by strengthening the anti-corruption legal framework. In September 2020, we amended the Criminal Code to ensure that the main corruption offences are classified as serious offences. As a result of these amendments, extended statute of limitations and application of protection measures for witnesses and other participants in criminal procedures would be possible in connection with these offences. Further, we have started a comprehensive reform of our Criminal Procedure Code to improve the criminal justice process and enable prosecutorial bodies to pursue criminal cases and sanction perpetrators more effectively. Towards this end, in consultation with Fund staff, we have started a comprehensive process to amend the Criminal Procedure Code to add clear criteria and procedures for the application of plea bargaining and other sentence reduction or mitigation provisions and to prohibit the reduction of a term of imprisonment in corruption cases below the statutory minimum (**end-December 2022 structural benchmark**).

29. We will promote the integrity, capacity, and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption. In consultation with Fund staff, and taking into account opinions of the Venice Commission, in April 2022, we improved the selection process for the head of the Anti-Corruption Prosecution Office (APO) by amending the Law on the Prosecution Service **(end-March 2022 structural benchmark)** to: (i) allow legal professionals without prosecutorial experience to apply for the position of head of the APO; and (ii) establish a commission comprised of members with impeccable reputation and high professional and moral qualities to vet candidates for the APO head in a balanced, transparent, and fair manner using objective criteria stipulated by law. The commission included members with recognized ethical standards and international experience in anticorruption prosecution and representatives of civil society. We then immediately initiated the process for the selection of the head of the APO, in accordance with the amended Law on the Prosecution Service (**end-December 2022 structural benchmark**). The recruitment was completed in June 2022 and the new head of the APO is due to take up post on August 1, 2022. We will also amend relevant legislation to focus the efforts of the APO and NAC to high-level corruption involving investigation or prosecution of (i) public officials of high office and (ii) corruption “in large proportions” or “resulting in serious consequences", as defined by the Moldova Criminal Code **(end-December 2022 structural benchmark)**. We also commit to implementing legal provisions that preserve the operational autonomy of the APO by allowing it to have an independent budget and control over its human and financial resources.

30. Corruption enforcement is increasingly focusing on high-level corruption and recovering criminal proceeds. During the first six months of 2022, the NAC provided support in parallel financial investigations in cases involving 22 former and current MPs, one former president, and one former Chair of Parliament, as well as 7 prosecutors and 3 judges, all holding leadership positions. We have also confiscated criminal assets in the amount of approximately 630 million Moldovan lei in the first half of 2022. We are also developing a database of seized assets, allowing for more transparency into the management of confiscated assets and the kinds of enforcement measures that have been taken following final court decisions. Among the priorities moving forward will be the intensification of scrutiny of high-level officials' sources of wealth, including assets held abroad, leveraging the asset declaration regime and the illicit enrichment offence. Towards this end, we aim to improve the effectiveness of our asset declaration regime, including with respect to October 2021 amendments to Law 132/133 requiring a fair market valuation in asset declarations. We also aim to implement a system of non-conviction-based confiscation starting in 2023.

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

F. Economic Statistics

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

G. Program Monitoring

33. The heightened uncertainty and pressing financing needs necessitate frequent program monitoring. The quantitative performance criteria on the cash deficit of the general government, indicative targets, structural benchmarks, and an inflation consultation clause are modified for end-September 2022, end-December 2022, and end-March 2023. The quantitative and continuous performance criteria as well as indicative targets are set for end-June 2023, end-September 2023, and end-December 2023. One prior action and one new structural benchmark have been proposed. The quantitative performance criteria, inflation consultation clause, and indicative targets are set out in Table 1, as specified in the Technical Memorandum of Understanding (TMU) attached to our Letter of Intent dated September 7, 2022. The prior action, along with the structural benchmarks, are set out in Table 2.

Table 1. Moldova: Quantitative Performance Targets, March 2022 – December 2023

	2022									2023						
	March [1/]		June			September		December		March [1/]		June		September [1/]	December
	Prog. Target	Actual	Prog. Target	Actual	**Status**	Prog. Target	Revised Prog. Target	Prog. Target	Revised Prog. Target	Prog. Target	Revised Prog. Target	Prog. Target	Revised Prog. Target	Proposed Prog. Target	Proposed Prog. Target
1. Quantitative performance criteria [1/]															
Ceiling on the cash deficit of the general government	1,705	1,206	9,845	3,427	**Met**	14,521	14,521	19,781	17,219	3,155	5,130	6,715	7,250	10,890	18,527
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) [2/]	3,447	3,260	2,761	3,539	**Met**	2,515	2,515	2,692	2,692	2,806	2,806	2,946	2,946	3,046	3,146
2. Continuous performance criteria															
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	0	**Met**	0	0	0	0	0	0	0	0	0	0
3. Indicative targets															
Ceiling on the general government wage bill	4,900	4,778	11,102	10,726	**Met**	16,505	16,505	21,485	21,783	5,485	5,485	12,020	10,990	17,130	24,567
Floor on targeted social spending undertaken by the general government [3/]	835	620	905	951	**Met**	1,055	1,055	1,546	2,065	980	1,410	1,217	2,020	2,404	3,038
Floor on developmental spending undertaken by the general government [4/]	5,976	7,192	12,617	16,141	**Met**	19,390	19,390	28,958	28,654	6,093	7,911	13,290	17,755	22,838	31,520
4. Inflation Consultation Bands (in percent)															
Outer Band (upper limit)	7.0		32.5			29.5	37.0	19.5	33.0	12.4	25.0	8.0	16.0	11.5	11.0
Inner Band (upper limit)	6.5		31.0			28.0	35.5	18.0	31.5	10.9	23.5	6.5	14.5	10.0	9.5
Center point	5.0	22.2	29.5	31.8	**Met**	26.5	34.0	16.5	30.0	9.4	22.0	5.0	13.0	8.5	8.0
Inner Band (lower limit)	3.5		28.0			25.0	32.5	15.0	28.5	7.9	20.5	3.5	11.5	7.0	6.5
Outer Band (lower limit)	3.0		26.5			23.5	31.0	13.5	27.0	6.4	19.0	2.0	10.0	5.5	5.0

1/ Indicative targets for March 2022, March 2023 and September 2023.
2/ The NIR target is set as specified in the TMU.
3/ Includes heating allowance, payments under Ajutor Social and unemployment insurance programs.
4/ Includes health, educational, and infrastructure spending.

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

	Measure	Rationale	Timeframe	Status
Prior Action				
1	Parliament to adopt amendments to the 2022 budget in line with the macro-framework agreed with IMF staff, to bring the 2022 general government deficit to 6.2 percent of GDP, subject to financing availability.	Support macroeconomic recovery and mitigate impact of the pandemic		
Structural Benchmarks				
Anti-Corruption and Rule of Law				
1	Amend relevant legislation, in consultation with Fund staff, and taking into account opinions of the Venice Commission, to: (i) allow legal professionals without prosecutorial experience to apply for the position of head of the APO; and (ii) establish a commission comprised of members with impeccable reputation and high professional and moral qualities to vet candidates for the APO head in a balanced, transparent, and fair manner using objective criteria stipulated by law.	Strengthen anti-corruption institutions	end-March 2022	Not met. Implemented in April.
2	Amend relevant legislation to narrow the mandates of the APO and NAC to high-level corruption involving investigation or prosecution of (i) public officials of high office and (ii) corruption "in large proportions" or "resulting in serious consequences", as defined by the Moldova Criminal Code.	Promote the integrity, capacity and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption.	end-December 2022	
3	Amend the Criminal and Criminal Procedure Codes to add clear criteria and procedures for the application of plea bargaining and other sentence reduction or mitigation provisions and to prohibitthe reduction of a term of imprisonment in corruption cases below the statutory minimum.	Strengthen enforcement of the anti-corruption legal framework	end-December 2022	
4	In accordance with the amended Law on Prosecution Service, establish the special pre-selection committee, which includes experts with international experience, and appoint an individual with the necessary professional skills and irreproachable reputation to the head of the Anti-Corruption Prosecution Office (APO).	Strengthen anti-corruption institutions.	end-December 2022	Met.
Fiscal Governance				
5	Publish a comprehensive tax expenditure analysis of VAT and income taxes to identify tax relief provisions to be phased out.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end-June 2022	Met.
6	Publish a report on the execution of investment projects undertaken by extrabudgetary funds in the previous fiscal year.	Strengthen the public investment management framework	end-March 2022	Met.
7	Operationalize the integrated taxpayer register.	Strengthen tax administration	end-June 2022	Met.
8	Expand the coverage of a comprehensive IT-based staff registry to all central government employees.	Strengthen the unitary pay system in the budgetary sector	end-June 2022	Met.
9	Amend legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and extrabudgetary funds.	Strengthen the public investment management framework	end-September 2022	
10	Institutionalize tax expenditure reviews to be part of the annual State budget planning process.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end-March 2023	New structural benchmark.
Financial Sector Oversight				
11	Finalize the comprehensive solvency assessment report by a reputable auditing firm for all insurers issuing green cards based on end-December 2020 data.	Rehabilitate the insurance sector	end-March 2022	Met.
12	Strengthen provisions for the institutional autonomy of the NBM: (i) the procedures and criteria for the appointment, resignation and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) clarifying managerial responsibilities for the governor and the executive board.	Strengthen the institutional autonomy and governance of the NBM	end-June 2022	Not met. Reset for end-October 2022.
13	NBM to approve secondary ELA regulations to enhance rules for collateral eligibility, risk controls, and internal procedures.	Strengthen financial safety net	end-June 2022	Not met. Implemented in August.
14	Prepare a targeted review of the BRRL and the relevant secondary legislation, in line with good practices as appropriate to Moldova and based on IMF staff recommendations, to identify shortcomings, introduce more flexibility to the MREL requirement, the conditions of access to the resolution fund, and the participation of the DGF in the financing of the resolution measures	Strengthen financial safety net	end-June 2023	
SOE and Regulatory Framework Reforms				
15	The Public Property Agency to require all SOEs at the central government level to submit quarterly financial statements.	Enhance oversight capacity over the SOE sector and strengthen fiscal risk monitoring	end-March 2022	Met.
16	The government will develop and adopt a state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization, or liquidation, as well as plans to strengthen their governance.	Improve SOE governance and reduce fiscal risks	end-September 2022	

Attachment II. Technical Memorandum of Understanding

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

A. Quantitative Program Targets

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

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

Indicative targets are set on:

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

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

B. Program Assumptions

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

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

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

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

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

C. Institutional Definitions

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

D. Program Definitions

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

- For program monitoring purposes, **gross reserves** of the NBM are defined as readily available external assets that are controlled by the NBM for meeting balance of payments financing needs and for intervention in exchange markets. They include monetary gold, holdings of SDRs, reserve position in the Fund, and holdings of foreign exchange in convertible currencies that are readily available for intervention in the foreign exchange market or in the securities issued by sovereigns, IFIs and agencies, with a minimum credit rating for such securities of AA- and deposits in counterparts with a minimum rating of A-.[3] Excluded from reserve assets are capital

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

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

subscriptions to foreign financial institutions, long-term non-financial assets, funds disbursed by international institutions and foreign governments assigned for on-lending and project implementation, assets in non-convertible currencies, NBM's claims on resident banks and nonbanks, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets (futures, forwards, swaps, and options).

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

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

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

8. Monitoring of this definition will be based on NBM's monetary survey and Treasury data. The Ministry of Finance will provide data on foreign-financed projects and balances in all other adjustment accounts. On this basis, and consistent with the definition above, the stock of the net domestic credit of the banking system shall be measured from below the line and as of September 30, 2021, amounted to MDL 8479.3 billion.

9. The **ceiling on the cash deficit of the general government** is defined, as the sum of net credit of the banking system to the general government (as defined in paragraph 7), the general

[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.

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

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

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

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

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

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

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

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

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

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

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

E. Inflation Consultation Mechanism

17. The monetary conditionality will include a set of quarterly inflation targets measured as the inflation of the headline consumer price index (CPI) published by the Moldovan National Bureau of Statistics set within tolerance bands. The inner band is specified as ±1.5 percentage point around the central point. The outer band adds an additional ±1.5 percentage point to the inner band. Deviations from the bands would trigger a consultation with the staff or Executive Board which

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

would focus on: (i) a broad-based assessment of the stance of monetary policy and whether the Fund-supported program is still on track; and (ii) the reasons for program deviations, taking into account compensating factors and proposed remedial actions if deemed necessary.

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

Inflation Consultation Bands

	2022			2023			
	June	September	December	March	June	September	December
Outer Band (upper limit)	32.5	37.0	33.0	25.0	16.0	11.5	11.0
Inner Band (upper limit)	31.0	35.5	31.5	23.5	14.5	10.0	9.5
Center point	**29.5**	**34.0**	**30.0**	**22.0**	**13.0**	**8.5**	**8.0**
Inner Band (lower limit)	28.0	32.5	28.5	20.5	11.5	7.0	6.5
Outer Band (lower limit)	26.5	31.0	27.0	19.0	10.0	5.5	5.0

F. Adjusters

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

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

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

22. The **floor on NIR** of the NBM will be lowered by any shortfall in the official external grants and loans up to the equivalent of US$79.6 million and US$290.5 million respectively, in 2022, valued at the program exchange rates.

Programmed External Financing Flows 1/

(Cumulative from the beginning of the calendar year)

	2022			2023			
	June Prog. Target	September Prog. Target	December Prog. Target	March 2/ Prog. Target	June Prog. Target	September 2/ Prog. Target	December Prog. Target
Programmed external financing flows to adjust the floor on the NIR target (US$ million)	185	278	476	43	85	128	170
Programmed external financing flows to adjust the ceiling on the cash deficit (MDL million)	3,663	5,494	8,899	915	1,830	2,744	3,659

1/ Excluding IMF financing.
2/ Indicative targets for March and September.

G. Reporting Requirements

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

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

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

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

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

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

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

Statement by Luc Dresse, Alternate Executive Director for Republic of Moldova, Stijn Verhelst and Veronica Volociuc, Advisors to the Executive Director for the Republic of Moldova
September 21, 2022

Our authorities wish to express their gratitude to the Executive Board, Management, and staff for their continued support of Moldova's reform agenda, epitomized by the approval of the Extended Credit Facility and Extended Fund Facility (ECF-EFF) arrangement in December 2021 and its increase and rephasing of access in May 2022. They highly value the constructive engagement with Mr. Atoyan, Mission Chief, Mr. Chawani, Resident Representative, and the entire team during the first review of the program. The authorities broadly agree with staff's assessment and policy recommendations provided in the report. The ECF-EFF program's pillars and objectives will continue to anchor their policies towards boosting resilience to mitigate the challenges posed by the multiple crises.

Macroeconomic development and outlook

Moldova remains under significant pressures stemming mainly from the severe fallout of the Russian invasion of Ukraine and the energy crisis. In addition to the residual effects of the COVID-19 pandemic, a massive inflow of refugees, rising food prices and skyrocketing energy prices, and severe disruptions to energy supply and trade continue to take a heavy toll on Moldova's economy and social fabric. In addition, a severe drought this summer and rising fertilizer prices are affecting the agricultural sector.

As a result, inflation jumped in the first half of 2022 and will stay stubbornly high for the rest of the year. Inflation edged up to 33.6 percent year-on-year in July, mainly driven by soaring food and energy prices. In particular, the rising imported energy costs have been largely passed on to consumers, with natural gas and electricity rates tariffs adjusted by more than 350 percent and 60 percent, respectively, over the past 12 months. The authorities expect annual inflation to average 28.5 percent in 2022, before gradually moderating in 2023 and returning to the target by 2024. Trade disruptions and soaring energy import prices will widen the current account deficit from 11.7 percent of GDP in 2021 to 12.8 percent in 2022. Finally, after a strong rebound in 2021, economic activity is projected to stagnate in 2022. Growth should remain subdued in 2023, before gradually recovering in the medium term. However, prolonged war-induced disruptions and high energy import dependence will continue to weigh on the real GDP path.

Adverse risks to the outlook remain significant. The downside risks to the outlook remain significant. A sharper than expected increase in energy prices or disruptions in energy supply could result in significant fiscal costs and affect corporate balance sheets and household purchasing power. Food security risks could also increase if the war persists, due to large food imports from Ukraine, but also due to drought conditions. Escalation of the war closer to the Moldovan border could damage confidence, put pressure on the Moldovan lei, undermine domestic securities markets, and lead to system-wide deposit withdrawals. The rising cost of living could threaten social cohesion. In addition, a further deterioration in European growth prospects and agricultural conditions could weigh on net exports.

Policy responses and program implementation

The authorities' actions are aimed at responding to the hardship posed by the spillovers of the Russian war against Ukraine, putting in place contingency plans if negative risks materialize, and continuing to implement its ambitious reform program. Their immediate response is to address the pressures on public finances from the war, strengthen tools to respond to the energy crisis, address high inflation, support the vulnerable, and contain risks to financial stability. Advancing the rule of law and anti-corruption reform agenda, as well as strengthening governance and transparency, remain key priorities for creating a solid foundation for sustainable and inclusive growth.

The Moldovan authorities remain firmly committed to the reforms of the ECF-EFF program, and implementation is progressing apace. All end-June indicative targets and quantitative performance criteria have been met. Four out of the five structural benchmarks have been implemented, although one with limited delay. The structural benchmark (SB) on amendments to the Law on the National Bank of Moldova (NBM), focused on strengthening its autonomy and institutional governance, is now set to be implemented by end-October 2022, as additional consultations are underway in order to build consensus among all stakeholders. In the meantime, the head of the Anti-Corruption Prosecution Office has been appointed and took office on August 1st, well ahead of the end-December SB deadline. Building on previous steps in the program and supported by IMF technical assistance, a SB has been added, aiming at enhancing the tax system and fiscal consolidation efforts.

Fiscal policy

The fiscal stance remains challenging as the shock of the energy crisis and needs to support the most vulnerable and refugees are growing. On 8 September 2022, the Parliament adopted a second supplementary budget for 2022 (prior action). Compared to the previous budget, higher-than-expected revenue collection and external grants simultaneously permit lowering the fiscal deficit by 1 percentage point, to 6.2 percent of GDP, and buttressing the response to the inflation and energy price crises. Additional support will mainly be channeled through targeted income increase or one-off payments to pensioners and public sector employees and through an increase in the allocation to the energy vulnerability fund, which will partly be used to support vulnerable energy consumers during the winter heating season. For that purpose, a transparent, temporary and progressive energy support scheme is being launched, in which households have been classified into vulnerability categories based on clearly defined metrics. The least vulnerable consumers, representing one-third of households, will not be compensated. Additional allocations will also be granted to specific social assistance programs.

The authorities' fiscal plans remain anchored by a strong commitment to debt sustainability. Fiscal policy priorities for 2023 will focus on securing adequate budget financing, improving the efficiency of social assistance programs, and addressing capacity constraints, such as the issue of retaining employees in the public sector. Given the currently identified financing sources, the authorities plan to target a deficit of 6 percent of GDP. However, the authorities will seek additional external financial support in the form of grants and concessional financing, to retain adequate fiscal buffers, should the materialization of negative risks trigger fiscal needs.

The reforms of the public expenditures are instrumental in authorities' efforts to ensure fiscal sustainability in the medium run. These efforts will be complemented by improving budget quality and fiscal transparency by enhancing the public procurement system in line with the European standards. Building on the enhancement of the framework for fiscal and financial monitoring of SOEs, the authorities will move forward with the next phase to identify the SOEs for potential reorganization, privatization, or liquidation to further improve their efficiency and contain fiscal risks. The authorities will continue to expand the institutionalization of spending reviews. They completed the spending reviews in the education and agriculture sectors, leading to the identification of possible efficiency gains, and launched a spending review in the health sector.

The authorities will also speed up their efforts to enhance domestic revenue mobilization. The authorities will step up work on identifying tax relief provisions which could be phased out, enhancing the capacity of the State Tax Service and progressing with customs reforms to reduce revenue leakages and smuggling, and to strengthen tax compliance.

Monetary policy

The NBM's actions to ensure price stability remain strong and will continue to respond conclusively to rising inflation. In the face of accelerating inflation pressures, the NBM has further tightened its monetary policy. Three additional 300 basis point increases since May have brought the base rate to 21.5 percent. Furthermore, required reserve ratios have been increased in two steps, from 34 percent to 40 percent for Moldovan lei and from 39 percent to 45 percent for foreign currency.

The NBM stands ready to continue tightening its monetary policy stance to address potential second round effects from the supply-side shocks and anchor long-term inflation expectations, also considering the goal to balance financial stability and growth objectives. At the same time, while the central bank's interventions in the foreign exchange market were required initially to smooth excessive exchange rate volatility induced by the war pressures, they were reduced substantially and partially reversed. Foreign exchange reserves were replenished to a level of US$ 3.6 billion, i.e. 5 months of prospective imports of goods and services, providing a strong cushion against exchange rate pressures, potential protracted shocks, and market uncertainty. The NBM will continue to thoroughly monitor the market development and will allow necessary exchange rate adjustment.

Financial sector

The banking sector is positioned well to withstand potential loan losses. Despite severe liquidity pressures caused by the Russian war against Ukraine, the system-wide liquidity (224 percent at end-June) and the capital adequacy ratio (29.3 percent at end-June) remain robust. The NBM's recommendation for banks to abstain from any dividend payouts will cement these buffers. The banks continue to stay profitable with ROE and ROA at 15.9 and 2.7 percent respectively at end-June. Non-performing loans (6.7 percent at end-June) are broadly under control, but the increasing risk of a worsening of debtor balance sheets could erode some banks' capital buffers.

The authorities will step up their efforts to contain financial stability risks and ensure financial sector stability. To this end, the NBM will review the Bank Recovery and Resolution Law with the view to enhancing the resolution preparedness and actions, generating access to resolution fund and enhancing the financial stability capacity to better monitor the systemic risks. The NBM is also planning to further improve banking supervision. Regulatory and supervisory responsibilities for oversight of the non-bank financial sector from NCFM will be transferred to the NBM effective July 1, 2023. In tandem, the consolidation of the regulatory and operational framework for the non-bank financial sector will be also accelerated. This will envisage *inter alia* strengthening the financial consumer protection framework, and full introduction of Solvency II legislation. The authorities remain committed to continue to strengthen the AML/CFT framework, including in line with the 2019 MoneyVal findings.

Energy sector

The authorities have enhanced their energy crisis response measures to address both supply and demand exposures. The authorities updated their contingency plan in case the energy crisis magnifies. They created some gas stocks for emergency situations and stand ready to build up storage under a secured EBRD credit line. The recently signed contract with a Norwegian and a British company to conduct an audit of Moldovagaz's historic debt to Gazprom will pave the way for a transparent renegotiation of gas volumes with Gazprom going forward. Since Moldova is almost fully dependent on energy imports, the authorities are pursuing a diversification of energy supplies. Following the completion of legislative and regulatory frameworks towards full unbundling of the electricity sector, the authorities plan to issue the final certification for the unbundled gas operator by August 2023. They also enhanced the focus on improving the energy efficiency mechanism, as well as broadening the renewable and cogenerated electricity opportunities.

Governance reforms

The authorities will continue to carry out their ambitious anti-corruption reform agenda and to strengthen the rule of law. Focusing on the independence and accountability of judicial actors, the Strategy on Judicial Independence and Integrity approved in December 2021 will guide their actions for cleansing the system and enhancing the framework. To support these efforts, the authorities will also consider enhancing the judicial system's institutional capacity, integrity, and transparency, including of the prosecution service. They will focus on tackling high-level corruption and large-scale cases. The recent nomination of a new head of the Anti-Corruption Prosecution Office, well ahead of schedule, will help the authorities to achieve these objectives.

Concluding remarks

Considering the above, including the overall strong performance under the program, the authorities request the completion of the first reviews of the ECF-EFF program. They also request modification of the inflation consultation clause due to persistent external shocks, as well as modification of the performance criteria on the cash deficit of the general government and indicative targets, in line with the updated projections and agreed upon policies.

Despite difficult circumstances, the authorities remain fully committed to program implementation. Alongside continued financial support, the authorities are convinced that successful program implementation will be beneficial to address the ongoing external shocks, to enhance resilience, and to create an overall environment that is conducive to sustainable and inclusive long-term growth. Their reform resolve has been further bolstered by the recently granted EU candidacy status.