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REPUBLIC OF MOLDOVA

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THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOLDOVA

In the context of the Third Reviews for an Extended Arrangement under the Extended Fund Facility and an Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 29, 2018, following discussions that ended on March 27, 2018, with the officials of the Republic of Moldova on economic developments and policies underpinning the IMF arrangements. Based on information available at the time of these discussions, the staff report was completed on June 15, 2018.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for the Republic of Moldova.

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

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

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

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June 29, 2018

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Washington, D. C. 20431 USA

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

On June 29, 2018, the Executive Board of the International Monetary Fund (IMF) completed the Third Reviews under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) Arrangements for the Republic of Moldova and approved the request for modification of performance criteria. Completion of the review makes available SDR 24 million (about US$33.8 million). The ECF/EFF arrangements in a total amount of SDR 129.4 million (about US$178.7 million, or 75 percent of the Republic of Moldova's quota) were approved on November 7, 2016 (see Press Release No 16/491 for details).

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

"Moldova's strong commitment to the Fund-supported program has contributed to a further strengthening of the economy. It is critical that prudent policies are maintained and reforms continue to advance to complete the repair of the financial sector, ensure transparency and stability in the energy sector, and maintain macroeconomic stability. A strong effort is also required to further improve governance.

"Significant progress is being made in cleaning up the financial sector, notably by securing transparency in systemic banks and amending the framework to remove unfit shareholders. Further efforts are required to complete identification of beneficial owners and remove unfit shareholders; to improve banks' risk management; and to address related party issues, including credible time bound plans to unwind excessive exposures. In addition, there is a need to facilitate the orderly exit of the second largest bank from temporary administration. Moreover, micro credit institutions should be prohibited from accepting deposit-like funds, and there is a need to ensure strong governance, ownership transparency, and financial strength in the insurance sector.

"On fiscal issues, the 2018 budget amendment accommodates priority infrastructure needs and other social assistance, consistent with program objectives. Priority spending should be protected, the wage bill should be contained relative to GDP, and budget overruns ahead of the elections should be avoided. The 2019 Budget and medium-term framework should remain in line with program commitments. Tax policy decisions should sustain the agreed revenue path, and the progressivity of the system, while budget slippages associated with unifying the public wage scale should be prevented. More efforts are needed to facilitate the elimination of arrears.

"Monetary policy should continue to focus on maintaining price stability under a flexible exchange rate regime. It should remain data dependent and the operational capacity of the authorities should continue to be improved. Intervention in the foreign exchange market should be limited to smoothing excess volatility.

"While there has been delay in the recovery of stolen assets, a high-level strategy was published and it should be implemented in a determined manner. The AML/CFT frameworks and regulations should be to realigned with international standards. In the energy sector, it is important to ensure viability, transparency and predictability, by setting electricity tariffs in line with the new methodology and program commitments."

REPUBLIC OF MOLDOVA

June 15, 2018

THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

The economy strengthened in 2017. Higher-than-expected GDP growth was driven by strong domestic demand and a positive external environment. Inflation slowed, driven by regulated and food prices, prudent policies and exchange rate appreciation, to below the target of the National Bank of Moldova (NBM).

The program remains broadly on track with strong ownership, but risks remain. The authorities are firmly committed to the program and financial reforms, fiscal performance, monetary policy, and external sector developments were broadly in line with program expectations. All performance criteria for end-December were met, as were all but two of the structural benchmarks, although a number with delay. The outlook remains subject to considerable domestic and external risks, including related to the forthcoming elections.

Policies remain focused on cleansing the financial sector, ensuring sustainable and growth-friendly fiscal policy, and transparency in the energy sector. The authorities remain committed to ensuring fitness and probity of bank shareholders and finalizing bank diagnostics and balance sheet clean-up. Maintaining fiscal sustainability in a growth-friendly manner—to provide space for priority social spending and capital expenditure—is key.

Staff supports the completion of the third review. Based on recent performance, including the completion of prior actions and the authorities' commitments, staff supports completion of this review, which would make available the equivalent of SDR 24 million to Moldova.

Approved By **Thanos Arvanitis (EUR) and Mark Flanagan (SPR)**	Discussions were held in Chişinău during March15–27, 2018. The mission met with Prime Minister Filip, Minister of Economy and Infrastructure Gaburici, Minister of Finance Armaşu, Governor of the National Bank of Moldova Cioclea, Speaker of the Parliament Candu, and other senior officials and representatives of financial institutions, labor unions, diplomatic community, and international organizations. The mission team comprised Ben Kelmanson (Head), Sílvia Domit, Volodymyr Tulin (Res. Rep.), Rima A. Turk (all EUR), Edda Rós Karlsdóttir and Oleksandr Pysaruk (both MCM), Emmanouil Kitsios (FAD), and Niamh Sheridan (SPR). Veronica Volociuc (OED) participated in the discussions. Chasta Piatakovas and Alaina Rhee (both EUR) and staff from the local office in Chişinău assisted the mission.

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APPENDIX

RECENT ECONOMIC DEVELOPMENTS

1. **Growth strengthened somewhat in 2017.** Growth surprised on the upside at 4.5 percent in 2017. Domestic demand picked up sharply, largely driven by an increase in investment growth—which turned positive for the first time since the 2014 crisis—and in private consumption. Net trade was a drag on growth, with imports accelerating faster than exports (Figure 1).

2. **Inflation slowed more quickly than expected.** After peaking at 7.9 percent in late 2017, CPI inflation declined to 2.8 percent in May 2018, below the NBM's target. Inflation fell marginally outside the inner band of the inflation consultation clause in March. The consultation between the NBM and Fund staff concluded that, while inflation had been expected to ease, the magnitude of the slowdown had surprised, driven largely by changes in regulated services (partly associated with falling input prices), and fuel prices. Previous adjustments to regulated prices have started to fade, as expected, while underlying inflation[1] remains relatively stable, largely driven by the recent exchange rate appreciation (Figure 2).

3. **The fiscal deficit was well within the program ceiling, with priority social spending protected.** The 2017 fiscal outturn was better than expected. The augmented overall deficit was 1.0 percent of GDP, due to under-execution of capital and current spending and higher than expected revenues (Figure 3). Under-execution reflects implementation delays in road transportation projects, reorganization of ministries, and delays in external financing. This pattern continued in 2018Q1, with spending lagging plans and revenues over-performing, including from CIT that grew by 42 percent year-on-year. To support those most in need, priority social spending continues to be protected under the program; and since program inception, has risen by almost 10 percent through end-2017.

4. **The financial condition of banks is stable.** Financial statements indicate that banks remain highly liquid, well capitalized, and profitable (Figure 4). Depositor confidence is steady and credit growth is less negative than in 2016. The stock of nonperforming loans (NPL) for the three largest banks that are not part of foreign banking groups remained broadly stable.

5. **The current account deficit widened in 2017.** The deterioration, to 7.9 percent of GDP, was largely driven by lower net transfers and a weaker trade balance (Figure 5). Imports were boosted by strong income growth and real effective exchange rate appreciation (by 10.3 percent in 2017). Exports were buoyed by strong agricultural production and increased manufacturing exports to the EU, reflecting the impact of FDI and new free trade agreements. These trends have continued during Q1 2018. FDI and other non-debt creating inflows helped cover the higher current account deficit, and led to a moderate appreciation. At end-April, reserves were US$2.8 billion (equivalent to 5.0 months of prospective imports).

[1] Headline inflation, excluding food, regulated prices, and non-regulated energy prices.

OUTLOOK AND RISKS

6. The macroeconomic framework has been updated to reflect recent developments and prospects

- **Growth is forecast to remain solid.** The growth forecast for 2018 was revised up to 3¾ percent (up from 3 percent in the second review). Rising real incomes, continued remittance inflows, and previous monetary policy easing should support private consumption, while private investment is expected to slow ahead of the elections. Net exports are forecast to remain under pressure from a stronger exchange rate, less robust agricultural production, and robust domestic demand. Over the medium term, growth is projected to be close to 4 percent. To remain at this level will require ongoing structural reforms to address challenges, including from relatively low capital stock, slow productivity growth, limited financial intermediation, the shadow economy, and adverse demographics.

- **Inflation is forecast to slow further in the near term, before returning to target in 2019.** CPI inflation is expected to average under 4 percent in 2018 (down from 4.3 percent in the second review), breaching the lower bound of the range around the NBM's target, as previous upward price-level shocks dissipate, lower regulated energy prices—including gas and electricity—feed through, and the appreciation of the exchange rate continues to weigh on prices. These downward pressures will be only partly offset by previous monetary policy easing and less slack in the economy. Inflation is then forecast to pick up notably in early 2019, exceeding 5 percent later in the year, as the effect of tariff cuts drops out of the annual comparison.

- **The current account deficit is projected to improve modestly during 2018.** Large FDI-funded investment projects are expected to contribute to strong import demand during 2018. Over the medium-term, the current account deficit is expected to narrow to about 6.5 percent of GDP. FDI inflows, remittances and compensation of employees, and strong, albeit lower, other capital inflows, will contribute to further accumulation of gross international reserves. Total external and public and publicly guaranteed debt to GDP ratios are projected to gradually decline preserving Moldova's low risk of debt distress (see IMF Country Report 17/398).

7. The outlook remains subject to a range of risks (Annex I). In the near term, there is an upside risk to growth from further momentum in domestic demand, though agricultural prospects remain uncertain and weather dependent. Program implementation could also be tested in the run-up to the November parliamentary elections, with continued progress on banking sector reforms hinging on sustained political commitment.

PROGRAM POLICY DISCUSSIONS

A. Making Decisive Progress to Cleanse the Financial Sector

Securing Shareholder Transparency, Fitness and Probity

Background

8. Progress is being made to ensure fitness and probity of shareholders in the largest banks. Notably:

- Victoriabank (VB). The sale by a non-transparent shareholder of 39 percent of VB to a strategic investor (Banca Transilvania) in January 2018 represented a major milestone in efforts to cleanse the sector. The new management of VB has been certified as fit and proper by the NBM.

- Moldova-Agroindbank (MAIB). Following the passage of laws to facilitate the sale of previously cancelled shares in systemic banks by the Government, the authorities have continued negotiations with an EBRD-led consortium for the acquisition of "problem" shares in MAIB representing 41.09 percent of the bank. Agreement on the terms of a pre-contract for this operation were concluded in early June, paving the way to conclude the transaction, which is expected in late summer.

- Moldindconbank (MICB). Newly issued shares (replacing cancelled shares) have been valued by an international firm and offered for sale on the stock exchange. Discussions are underway with potential buyers, including strategic investors, but there is no firm buyer yet.

9. Efforts to identify concerted and unfit shareholders in the non-systemic banks have been completed. The NBM's Bank Supervision Department finalized investigations into concerted activities and the fitness and probity of shareholders, and is following up in line with the law to ensure that all shareholders are certified as fit and proper.

10. The process for removing unfit shareholders is being strengthened. The December 2017 legal amendments of procedures for share cancelation, issuance, and sale of newly issued shares completed the first step of strengthening the framework's legal basis and addressing decapitalization risk. However, the revised framework lacked incentives for timely action and risked remaining open-ended, requiring further action.

11. The safety, efficiency and soundness of securities' depository is being strengthened. The verification of legal records of shares of banks and insurance companies was completed in March by the National Commission for Financial Markets (NCFM). This was a vital precondition to moving securities' registration to a new Central Securities Depositary (CSD) from the current 11 private registries. This new framework is designed to guarantee the safety of securities and ensure their transparency, helping develop new financial market instruments.

Policies

12. The authorities are working actively to close the chapter on shareholder transparency, fitness, and probity in the largest banks. In MAIB, the authorities and the investors expect the sale transaction to be finalized later in the summer. In MICB, there are ongoing discussions investors regarding the purchase of a 64 percent share. Successful conclusion of the discussions will allow the bank to exit from temporary administration in an orderly manner **(structural benchmark, reset to end-October-2018**, to provide additional time to conclude discussions). The NBM has a contingency plan in place, should this approach face substantive impediments or delays that would undermine financial stability.

13. The shareholder removal process will be streamlined. The authorities agreed to adopt legal amendments to the new shareholder removal framework to incentivize effective and timely removal of unfit shareholders **(prior action, previous structural benchmark)**, in consultation with Fund staff. The revised framework will provide for: immediate removal from effective control or decision-making of concerted or unfit shareholders; strict limits on possible recertification of existing shareholders; price incentives to facilitate sale of shares early in the process; and clear steps to deal with unsold shares while protecting bank capital and governance. In parallel, NBM will also impose sanctions and exercise special supervision.

14. Any unfit shareholders in domestic non-systemic banks will be removed, and UBOs identified. Following amendments to the shareholder removal framework, the NBM will apply legal enforcement actions as needed vis-à-vis shareholders, and take decisions that will allow it to remove any unfit shareholders in domestic non-systemic banks before end-March 2019 **(proposed structural benchmark)**. The NBM will identify ultimate beneficiary owners (UBOs) of all qualified shareholders (≥1 percent ownership) in non-systemic domestic banks.

15. The CSD will become operational in end-October 2018. Implementation of a software platform for government securities will allow the transfer of their registry from NBM to the CSD. Following the verification of legal records of shares of banks and insurance companies, the NBM will develop a methodology to guide the transfer by October. The Supervisory Board established by the NBM will ensure effective oversight and operations of the CSD.

Completing Bank Diagnostics and Balance Sheet Clean-Up

Background

16. The NBM is finalizing bank diagnostics and follow up actions.

- Regarding the systemic banks, in late-April, the NBM Executive Board approved the list of related party (RP) exposures for the largest three banks, ordered those banks to prepare time-bound plans for bringing RP exposures into compliance with prudential limits and subsequently NBM staff reached agreement on those plans.

- In non-systemic banks, on-site inspections have been completed. Inspections of two small domestic banks were completed with some delay in February 2018, with those in banks that are part of foreign groups being undertaken by end-May 2018. The identification of RPs, their transactions, and exposures in these banks, is in progress.

- The NBM developed and issued for consultation with banks guidelines for RP risk management programs to ensure appropriate risk management in the context of RP exposures.

- Further, the NBM instructed all banks to conduct a self-assessment of corporate governance.

Policies

17. The NBM will ensure full compliance of RP exposures with prudential limits in all banks as soon as possible, and in line with the law. The NBM will ensure that credible time-bound action plans are in place for unwinding RP exposures for all domestic banks that are not part of foreign groups **(proposed structural benchmark, end-July 2018).** It will seek to unwind excessive exposures as quickly as possible, and in any case in line with the law, namely no longer than 24 months. In addition, during the next round of onsite inspections in the largest three banks before end-2018, the NBM will investigate counter-parties for whom there was insufficient evidence to presume relatedness during previous diagnostics.

18. To further strengthen risk management frameworks, the NBM will publish guidelines for bank RP risk management. These guidelines will include policies, procedures, and systems for identification of RPs' transactions and exposures. The updated NBM regulation outlining the terms of on-site inspections will stipulate that the final on-site inspection report and enforcement decision by NBM should be completed within 60 days from finalizing an inspection.

Further reforms to strengthen financial sector resilience

Background

19. The non-bank financial sector is growing quickly, and needs tighter regulation and closer supervision. Households and small and medium enterprises are increasingly served by micro-credit institutions. Efforts to improve data collection on this fast-growing sector are welcome. However, the law on non-bank credit organizations, which came into force on March 30, 2018, allows micro-credit institutions to attract certain types of funds that are close substitutes to deposits in contrast to Fund staff advice. The underdeveloped prudential framework of this sector and less developed oversight offer scope for regulatory arbitrage.

20. Financial safety nets are being strengthened. The authorities are implementing recommendations of recent Fund TA on Emergency Liquidity Assistance (ELA) and are committed to updating the deposit insurance law in line with Fund recommendations. They are also preparing to transpose the legal framework for bank insolvency/liquidation from the Law on Financial Institutions to the Corporate Insolvency Law.

Policies

21. The authorities are looking to strengthen the prudential framework for the non-bank financial sector and deepen its oversight. Future reviews will consider issues related to the law on non-bank credit organizations, which should be amended to fully prohibit micro-credit institutions from attracting funds that are deposits or close substitutes. Otherwise, institutions collecting such funding should be supervised as banks. In the insurance sector, the NCFM will ensure strong governance, ownership transparency, and financial strength. Future reviews will also provide an opportunity to review the regulatory framework, in collaboration with international partners, with the intention of aligning it with European standards.

22. The authorities are looking to further strengthen financial safety nets, to complement the Bank Recovery and Resolution Law. Further reforms are needed to support crisis preparedness and management. These reforms include (i) ensuring backup funding for the Deposit Guarantee Fund (DGF), expanding coverage to corporates, and allowing support of the transfer of liabilities in liquidation; (ii) strengthening the ELA operational framework, its governance, and oversight; and (iii) improving the bank liquidation framework to facilitate orderly exit in the event of failure. The authorities agree with these priorities and also intend to maintain an administrative liquidation framework for financial institutions, in line with Fund advice.

B. Preserving Fiscal Sustainability with a Growth-Friendly Spending Orientation

Background

23. The fiscal balance continued to overperform. The augmented overall deficit at end-2017 was 1.0 percent of GDP (versus 3.2 percent targeted), due to under-execution of capital and current spending by 1.8 percent of GDP, as well as higher than expected revenues by 0.4 percent of GDP. Underspending was related to heavy reliance on external financing, and delays in project appraisal, selection, and implementation. The wage bill remained within the indicative target; domestic state arrears were virtually eliminated, marginally exceeding the indicative target by some 0.002 percent of GDP; and priority social spending was slightly below the indicative floor by about 0.03 percent of GDP. Social spending underperformed due to lower registered unemployment and lower social transfers following an increase in pension

Moldova: General Government, December 2017 and March 2018

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

	Dec 2017		Mar 2018	
	Target 1/	Actual	Target 2/	Actual
1. Quantitative performance criteria				
Ceiling on the ***augmented*** cash deficit of the general government	5,308	1,444	1,339	-1,099
Of which: on-lending agreements with external creditors to state-owned enterprises	504	299	170	32
2. Indicative targets				
Ceiling on the stock of accumulated domestic government arrears	0	3	0	7
Ceiling on the general government wage bill	12,657	12,506	3,287	3,282
Floor on priority social spending of the general government	17,660	17,615	4,598	4,461
Floor on project spending funded from external sources	N/A	N/A	262	98

Source: Ministry of Finance; and IMF staff calculations

1/ Target for December is adjusted for the shortfall between the total amount of actually disbursed and programmed onlending from external creditors to SOEs as per the TMU.

2/ Target for March 2018 is indicative.

payments. A similar pattern was observed in 2018Q1, with expenditures running behind plans and revenues over performing, resulting in an augmented surplus of 0.7 percent of GDP. The risk of debt distress remains low, with PPG debt to GDP declining to 37 percent in 2017 down from close to 45 percent in 2015, and debt service to exports of goods and services remains low at 10.5 percent.

24. The Criminal Procedures Code was amended to grant the STS powers to establish whether tax crimes have been committed. While the STS has been operational since April 1, 2017, the powers to establish tax crimes could not be exercised without corresponding amendments to the Criminal Procedure Code. Such enabling legislation was passed on March 23, 2018, thereby allowing the STS to expand the current Division of Violations Discovery and Review to include criminal investigation attributes.

Policies

25. The 2018 Budget Amendment approved by Parliament is in line with program objectives (prior action). The deficit is expected to reach 3.5 percent of GDP, 0.2 percent higher than initially planned on the back of changes in the disbursement of expected grants. The amendment provides for an increase in priority social spending (0.1 percent of GDP), along with additional spending on roads infrastructure financed by EU grants received earlier than expected (in 2017Q4, versus 2018Q1). While the fiscal stance is somewhat more expansionary than in 2017, this is mostly due to delays in execution of essential capital projects last year. The higher capital budget in 2018 is appropriate to address Moldova's large infrastructure needs. Current spending will be contained as expected under the program. The wage bill will be limited to 8.6 percent of GDP, while accommodating: (i) legally mandated increases in salaries and medical insurance contributions; (ii) the inclusion of various public-sector entities as budgetary institutions; and (iii) staffing costs for agencies that are implementing donor-financed projects. Tax policy measures remain broadly unchanged.

26. The authorities agreed parameters for the 2019 Budget and 2019–2021 Medium-Term Budget Framework (MTBF) in line with program commitments. Tax policy decisions will be consistent with the agreed revenue path and progressivity of the tax system, while spending decisions will accommodate infrastructure spending on roads and projects that enhance energy security and reliability. The authorities published their first Fiscal Risk Statement at end-2017, and initiated a pilot spending review in the education sector that will be finalized by end-2018. They intend to fully institutionalize spending reviews into the regular annual and medium-term budget processed over the next two MTBF cycles. Local administration reform will be advanced in 2019 to streamline funding and improve project implementation at the municipality level.

27. Efforts to unify the public wage scale in 2019 will be carefully managed. Unification will improve budget planning and management by making the salary scale of all employees in the budgetary sector more manageable and transparent. Plans include replacing non-base payments with a performance-based component to help improve service delivery. The authorities will carefully assess the budgetary impact prior to implementation of the reform, and will consider options for transitional measures to prevent possible budget slippages associated with reform.

28. The authorities are pursuing stronger measures on arrears. They plan to amend Article 67 of the Law on Public Finances and Fiscal Accountability. They would incentivize local and other authorities to contain arrears by year-end, to be able to receive financing from the state budget in the following fiscal year. Staff also advised intensifying inspection of arrears repayment and improving monitoring to facilitate their elimination.

C. Strengthening the Effectiveness of Monetary and Exchange Rate Policies

Background

29. Monetary policy has remained on hold and reserves continue to accumulate. The NBM has kept both its base rate and the required reserve ratio unchanged in recent months. Inflation has slowed sharply since its 2016 peak while, despite the volatility of headline CPI, underlying inflation has remained relatively more stable. The end-December 2017 Net International Reserves (NIR) performance criteria (PC) and end-March 2018 indicative target under the program were met.

30. Financial conditions remain tight. Although lending rates have fallen since their peak in 2016, credit growth is still in negative territory, largely due to impaired financial intermediation. Staff analysis suggests that financial conditions have been a drag on economic growth since the 2014 banking crisis, with negative credit growth being the largest contributor. This underscores the need for financial sector rehabilitation to support new lending activity.

Policies

31. The NBM remains committed to maintaining price stability, and not resisting exchange rate movements driven by fundamentals. Inflation is forecast to remain relatively low and below the lower end of the range around NBM's target in 2018 before rising notably in 2019, with both the slowdown and the upswing largely driven by changes to regulated prices. With inflation projected to return to target within the forecast horizon, the monetary policy stance remains appropriate for now, although the authorities are carefully monitoring any signs of second round effects from cuts in regulated prices and exchange rate appreciation, or demand pressures in an election year. They are committed to acting proactively, using all available policy instruments, if the inflation outlook changes. Reflecting the updated inflation forecast, and the supply side factors driving price movements, the inflation consultation bands were revised. The NBM's interventions in the foreign exchange market will be aimed only at smoothing excess volatility. The NIR targets set under the program are consistent with this commitment, and were revised upward to reflect higher reserves accumulation through March 2018.

32. The operational framework for monetary policy will continue to be strengthened. The NBM reduced the number of monetary policy decisions from 12 to 8 per year, freeing up resources to allow for deeper policy analysis. This change will be accompanied by a broader set of measures including: (i) refining the forecasting process to strengthen outputs and decision-making, (ii) improving coordination across agencies, and (iii) strengthening internal and external communications, including by adhering to a regular calendar of monetary policy decisions.

33. The NBM is seeking to improve the efficiency of other frameworks supporting its monetary policy and market development objectives. The authorities have requested Fund technical assistance on changing the reference currency for intervening in the foreign exchange market from the US dollar to euro. Against a backdrop of high reserve requirements, the NBM is also considering reforms to the system of reserve remuneration.

D. Addressing Other Sectoral Issues

Background

34. The structural benchmark on energy was met. A new electricity tariff methodology, which is in line with Moldova's new Energy law and best European practice, was developed and approved by the energy regulator (ANRE) and published in the official gazette. The methodology provides for an agreed basis for determining costs, plans for capital investment, and profitability, with tariffs set, generally, annually. This important step was accomplished in agreement with the EU's Energy Community Secretariat and in consultation with other stakeholders, including the World Bank, Civil Society Organizations, and electricity distribution companies. Following this, energy companies have submitted requests for tariff cuts of around 5 percent, in many cases reflecting lower input prices.

35. Progress recovering stolen assets in the 2014 banking fraud has been slow. After publishing a summary report produced by Kroll on December 20, 2017, the final version of Kroll's investigation documents was transmitted to the Anti-Corruption Prosecutors Office in March 2018. These documents will serve as the basis for time-bound actions for the recovery of stolen assets.

36. Efforts to strengthen the AML/CFT frameworks are underway. The new AML Law was published in the official Gazette in February 2018. Consequently, the AML Agency has been strengthened as an independent entity under the government with operational capacity. This institutional set-up, together with upcoming regulatory and legislative changes will enable the authorities to better address ML/TF risks. MoUs on cooperation and exchange of information across all relevant domestic agencies are being concluded.

Policies

37. The authorities have committed to electricity tariffs being set in line with the new methodology. These tariffs will be fully based on the February 2018 methodology and should also reflect differences in the assessment of financial deviations (from earlier tariff requests) from April

2017-February 2018 **(proposed structural benchmark end-June 2018).** Setting tariffs on the basis of the new methodology will safeguard the fiscal sustainability of the sector and ensure a stable environment for investors.

38. The authorities are committed to recovering stolen assets and will move the 2014 bank fraud investigation into the recovery phase. The General Prosecutor's Office published a high-level strategy setting out a time-bound action plan for the recovery of stolen assets **(prior action, previous structural benchmark).** The strategy includes an outline of responsible agencies and their coordination as well as reporting requirements, without jeopardizing ongoing recovery efforts.

39. The authorities will align AML/CFT frameworks with international standards. They will amend the legal AML/CFT frameworks to ensure effective application of proportionate and dissuasive sanctions for AML/CFT violations by banks or other reporting entities in line with the Financial Action Task Force standards**.** They will also issue regulations, such as those on identification of suspicious transactions and activities, terrorism financing, and politically exposed persons. The effectiveness of the AML/CFT frameworks will be assessed by MONEYVAL in October 2018 and the report is expected to be discussed in the April 2019 plenary.

PROGRAM MODALITIES AND CAPACITY TO REPAY

A. Program Monitoring and Financing

40. Program monitoring will continue to be guided by semi-annual reviews, semi-annual and continuous performance criteria and indicative targets, and structural benchmarks. The attached Letter of Intent (LOI) and Supplemental Memorandum of Economic and Financial Policies (SMEFP) describe the authorities' progress in implementing their economic program. The updated program conditionality is presented in the SMEFP Tables 2 and 3. A revised Technical Memorandum of Understanding (TMU) is also attached. The authorities committed to implementing three prior actions for the completion of this review:

- Adopt legal amendments to the new shareholder removal model to incentivize effective and timely action.
- Adopt amendments to budget 2018 consistent with the augmented deficit ceiling.
- The General Prosecutor's Office to publish a high-level asset recovery strategy, setting out a time-bound action plan for the recovery of stolen assets.

41. Conditionality is proposed for the period ahead. Three new structural benchmarks are proposed to ensure the achievement of program objectives, while one structural benchmark in the financial sector is being reset.

42. The program remains fully financed, with firm financing assurances in place for the next 12 months, and good prospects for the remainder of the program period. The size of the external financing package, estimated at US$320.7 million for the remaining period under the program, will allow reserves to be built up to the top end of the Fund's ARA metric (148.3 percent of the metric by end-2018). Relative to the second review, external support in 2018 is lower by about US$100 million, and higher in 2019 by some US$50 million. This reprofiling mainly reflects changes in the expected timing of disbursement of EC grants, Macro Financial Assistance, and World Bank Development Policy Operation. As part of this Fund disbursement of SDR 24.0 million (US$34.9 million), SDR 9.5 million (about US$13.8 million) will be disbursed for budget support (ECF: SDR 8.0 million and EFF: SDR 1.5 million).

B. Capacity to Repay the Fund and Risks to the Program

43. Moldova is expected to meet its repayment obligations to the Fund, and it remains at low risk of debt distress. Obligations to the Fund are estimated to have peaked at 1.2 percent of GDP in 2017 and are projected to decline to 0.2 percent by 2023 (Table 7). Payments to the Fund are 2.8 percent of exports of goods and services in 2017 and are projected to decline to below 1 percent by 2020. Moldova has a strong track record in repayments to the Fund as indicated by timely repurchases to date.

44. Risks to the program remain significant but are mitigated by accumulated external reserves and program implementation to date. Since the start of the program, Moldova has re-built its external reserve buffer, helping to mitigate external risks. Internal risks are contained by Moldova's policy framework, with monetary policy anchored by the NBM's inflation-targeting regime and fiscal policy on a sound-footing supported by the medium-term fiscal framework. Fiscal risks associated with the energy sector have been reduced. The financial sector is also on a stronger footing, with progress being made in dismantling opaque bank ownership and strengthening supervision and regulation.

STAFF APPRAISAL

45. The program remains on track and the economy continues to strengthen. Since the last review, the authorities have taken important actions, affirming their strong commitment to the program even in an election year. However, important structural impediments remain to achieve strong and sustainable growth thereby raising living standards. Also, recent progress is not irreversible. It is therefore critically important that prudent policies are maintained and reforms continue to be advanced in the remaining program period, notably to complete the cleansing of the financial sector, ensure transparency and stability in the energy sector, and maintain macroeconomic stability.

46. The authorities are making significant progress in cleansing the financial sector, but continued action and vigilance are needed. The authorities are securing shareholder transparency, fitness, and probity in systemic banks, and have amended the framework for removing unfit shareholders. The NBM is also strengthening supervisory and regulatory frameworks, finalizing bank diagnostics, and bolstering financial safety nets. Critical next steps include (i) exit of the second largest bank (MICB) from temporary administration in an orderly manner, (ii) UBO identification and removal of unfit shareholders in all domestic non-systemic banks, (iii) addressing related party issues in all domestic banks, including credible time bound plans to unwind excessive exposures, (iv) improvement in banks' risk management procedures to allow effective financial intermediation. In the non-bank financial sector, the NCFM should fully prohibit micro-credit institutions from accepting deposit-like funds. For insurance companies, the NCFM should be vigilant in ensuring strong governance, ownership transparency, and financial strength, also aligning the regulatory framework with European standards.

47. The 2018 budget amendment is consistent with program objectives, though care is needed. Spending priorities this year include accommodating infrastructure needs and other social assistance for balanced and growth-friendly fiscal policy. Care should be taken to manage the wage bill to prevent it from increasing in percent of GDP and unduly constraining priority investments and social spending. Budget overruns ahead of the election should be avoided.

48. The 2019 Budget and 2019–2021 MTBF should remain in line with program commitments. Tax policy decisions should sustain the revenue paths agreed under the program and the progressivity of the tax system. Care should be taken to manage the process of unifying the public wage scale with a view to prevent budget slippages associated with the reform. Plans to fully institutionalize spending reviews into the regular annual and medium-term budget processes over the next two MTBF cycles, as well as local administration reform for 2019, are welcome. More efforts are needed to facilitate arrears' elimination, including by intensifying repayment inspection and monitoring improvements.

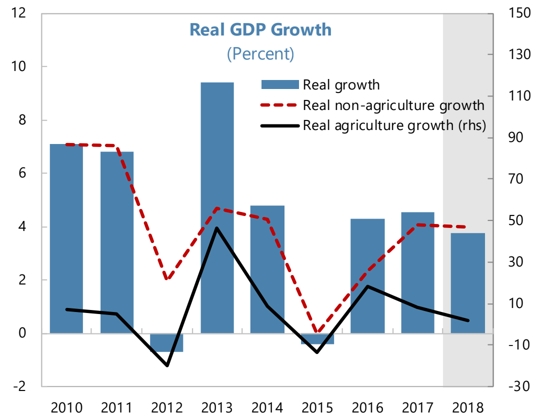
49. Monetary policy should continue to focus on maintaining price stability in the context of a flexible exchange rate regime. Monetary policy should remain data dependent and the NBM is monitoring the inflation outlook closely in consultation with Fund staff, given upside risks in an election year and downside risks from potential second round effects and the exchange rate appreciation. The NBM should continue to improve the operational capacity of its monetary policy, including by strengthening decision-making, improving coordination across agencies, and reinforcing internal and external communications. Intervention in the foreign exchange market should be limited to only smoothing excess volatility. The NBM continues to make progress in addressing recommendations from the 2017 safeguards assessment. In addition to implementing Fund TA on ELA, the bank is finalizing internal governance regulations on the interaction between the Supervisory Board and Executive Board.

50. Progress is needed in other sectors. More decisive action to recover stolen assets by moving the investigation into the recovery phase will be important to demonstrate the authorities' commitment to no longer tolerate abuses by owners and managers. The authorities should also re-align AML/CFT frameworks and regulations with international standards, including to ensure effective application of proportionate and dissuasive sanctions for violations. In the energy sector, the authorities should ensure viability, transparency and predictability, by setting electricity tariffs in line with the new methodology and outstanding commitments.

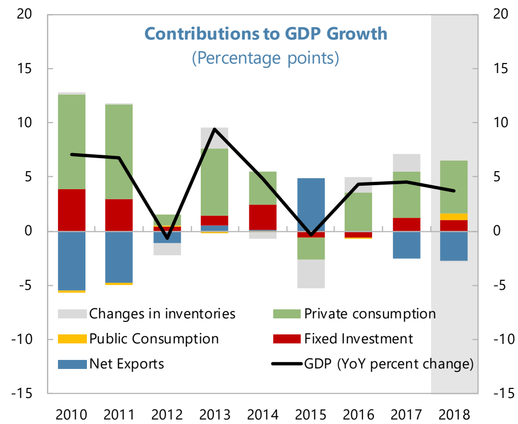
51. Staff supports the authorities' request for the completion of the third reviews under the ECF/EFF-supported program, and request for modification of two QPCs. Modification of the deficit PC is requested reflecting an updated macro framework and quarterly revenue and expenditure paths (¶26). Modification of the NIR PC is requested also in light of the updated framework, and changes in the expected timing of external support. These modifications do not undermine the achievement of the program's objectives. The program remains broadly on track, with strong ownership and, while risks to the program remain significant, the authorities' firm commitment to sound economic management and financial sector and structural reforms warrant continued Fund support.

Figure 1. Moldova: Real Sector Developments, 2010–18

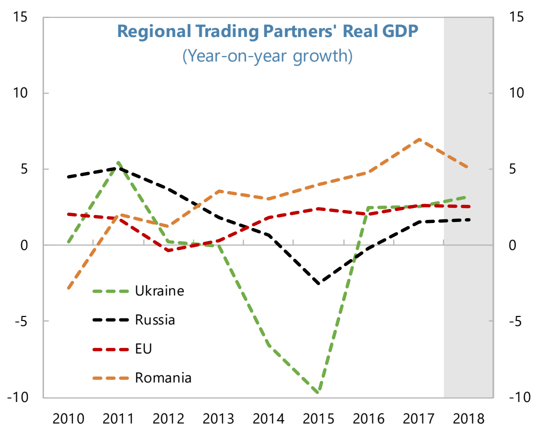
Despite weaker agricultural production, growth should remain solid in 2018, …



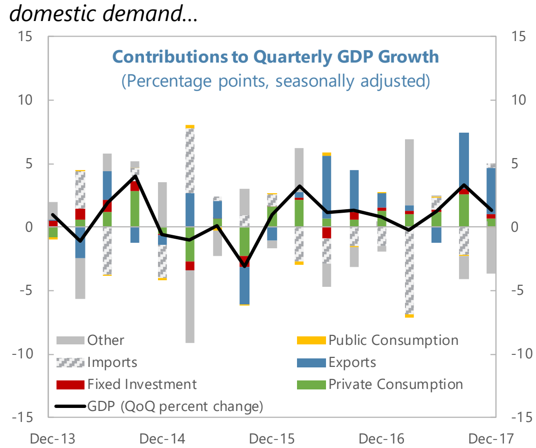
…driven by robust domestic demand…



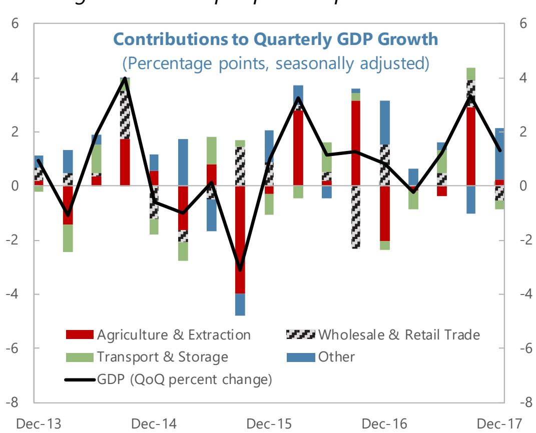
….and supported by a favorable external environment



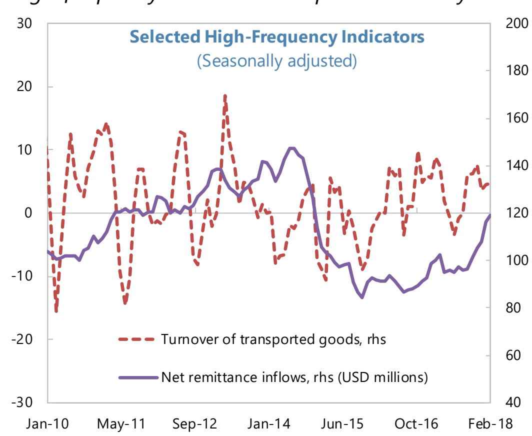
Growth momentum picked up in H2-2017, as exports, domestic demand…



…and agricultural output picked up



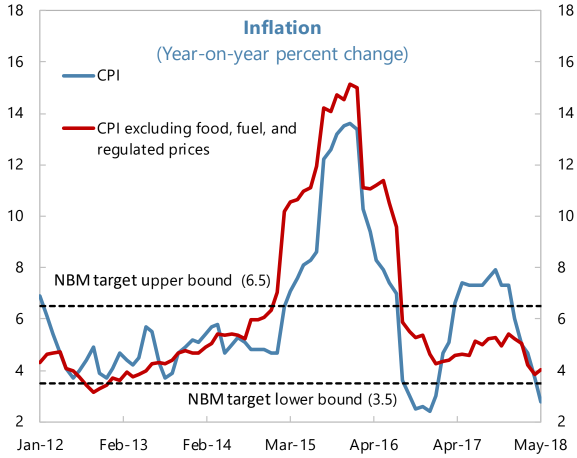
High-frequency data remained positive in early 2018



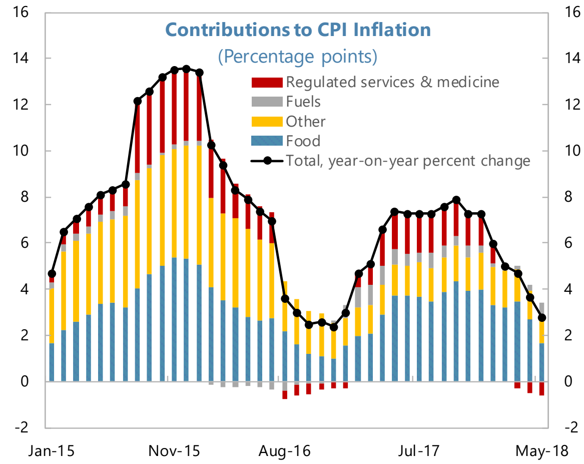
Sources: Moldovan authorities; National Bureau of Statistics of the Republic of Moldova; and IMF staff calculations.

Figure 2. Moldova: Money, Prices, and Interest Rates, 2011–18

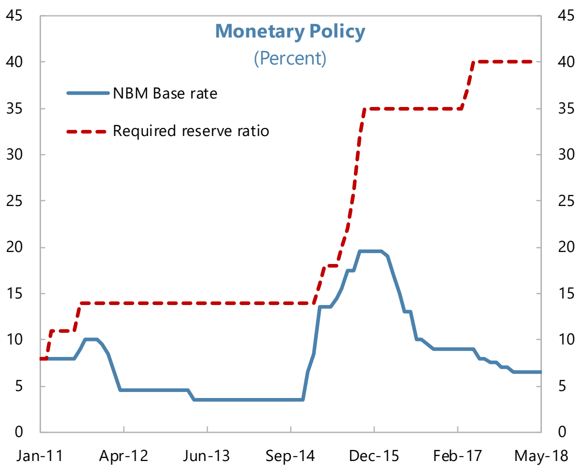
Headline inflation has slowed sharply, while underlying inflation has remained relatively more stable.



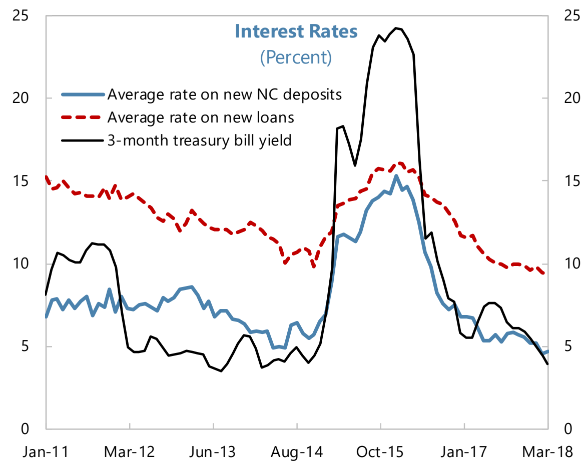
The slowdown has been largely driven by regulated prices.



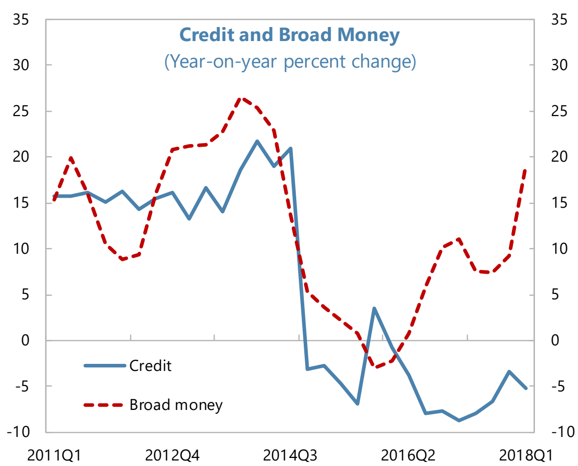
Monetary policy has remained on hold recently.



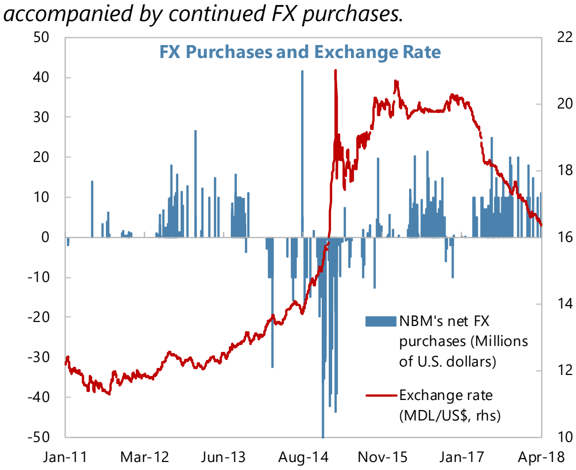
Despite lower interest rates…



…credit growth remains in negative territory.



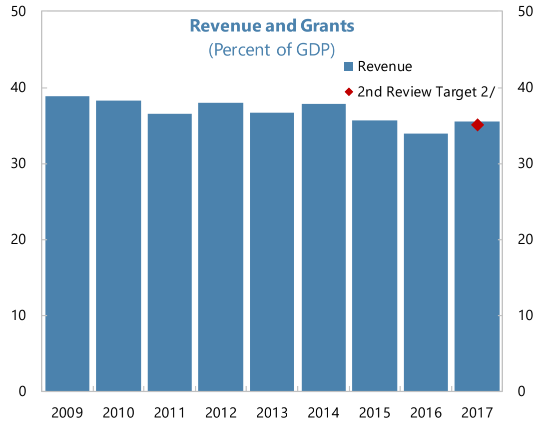
In the meantime, exchange rate appreciation was accompanied by continued FX purchases.



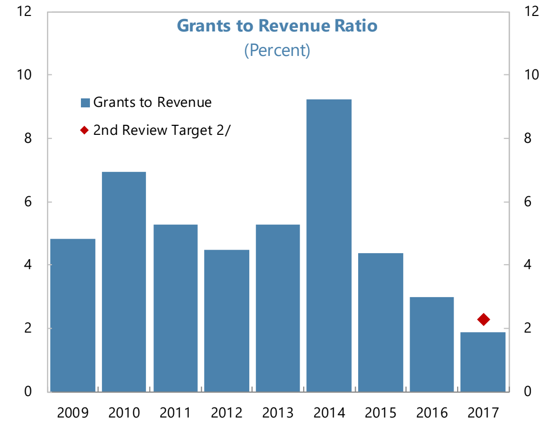
Sources: Moldovan authorities; and IMF staff calculations.

Figure 3. Moldova: Fiscal Developments, 2009–2017 1/

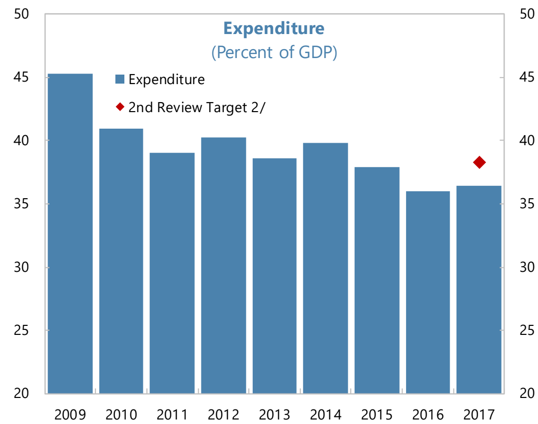
Revenue over-performed owing to higher receipts from VAT, excise taxes, and Social Fund contributions…



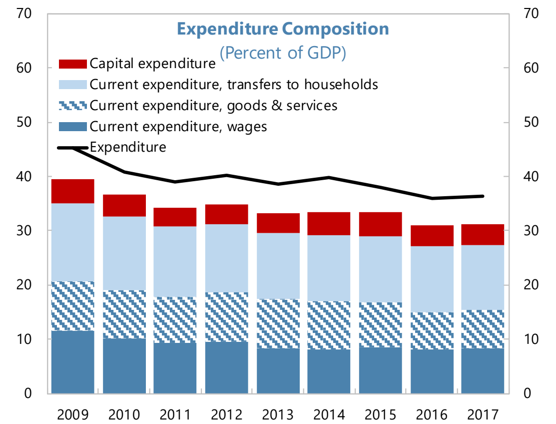
…while grants were lower than expected.



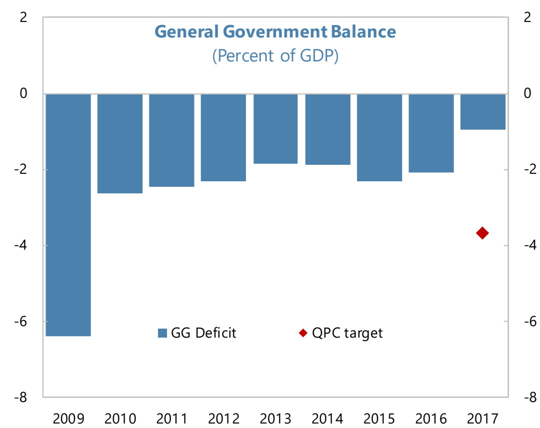
Overall spending increased marginally, albeit with broad under-execution relative to the Budget.



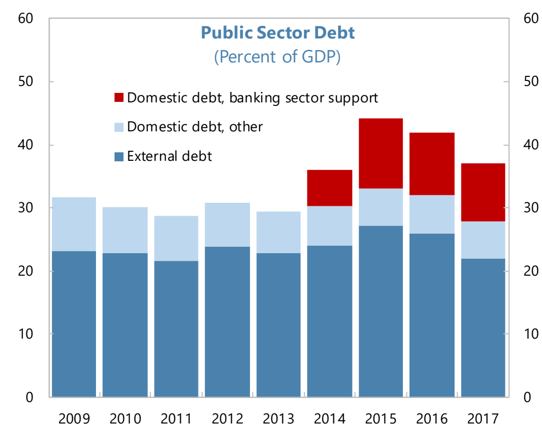
Spending composition remained in line with the previous year's execution…



Deficit contracted and remained well below the program target.

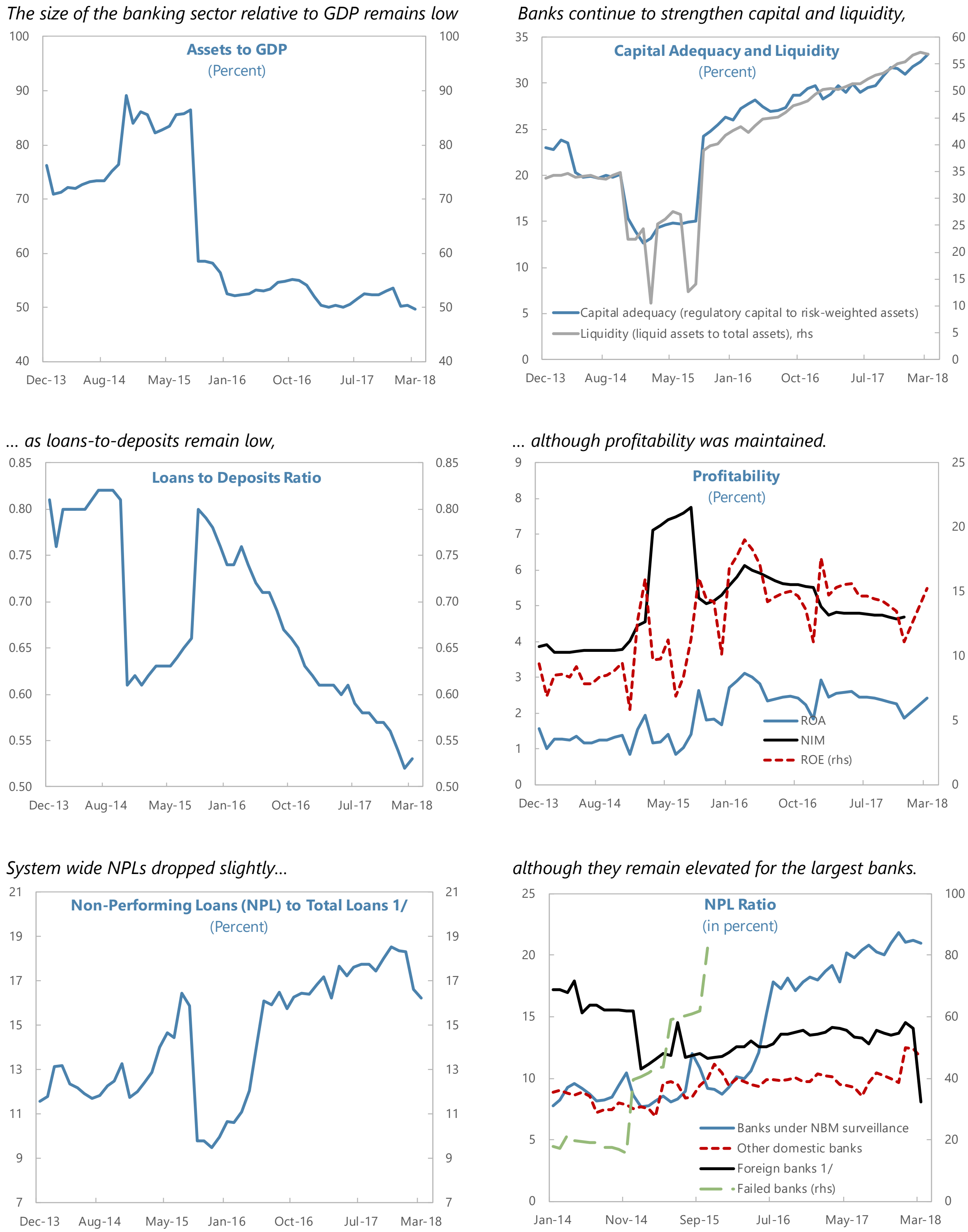


Public debt declined owing to lower deficit and external debt.



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

Figure 4. Moldova: Banking Sector Developments, 2013–18

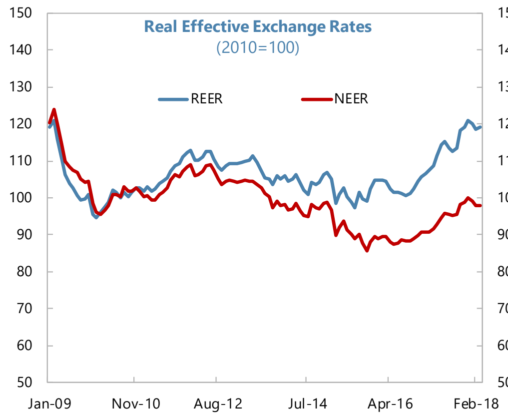


Sources: National Bank of Moldova; and IMF staff calculations.

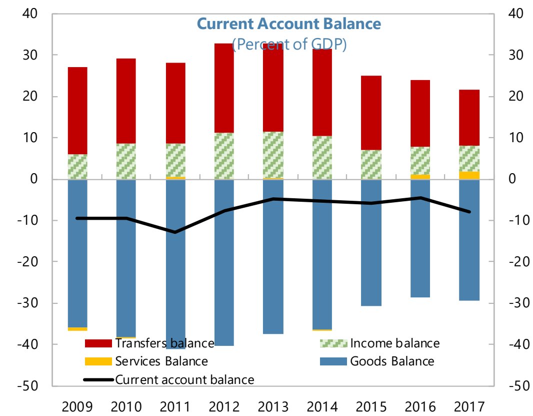
1/ The acquisition of EXIMBANK by Veneto Banca S.p.A. in February 2018 required mandatory liquidation of NPLs and loan balances.

Figure 5. Moldova: External Sector Developments, 2009–2017

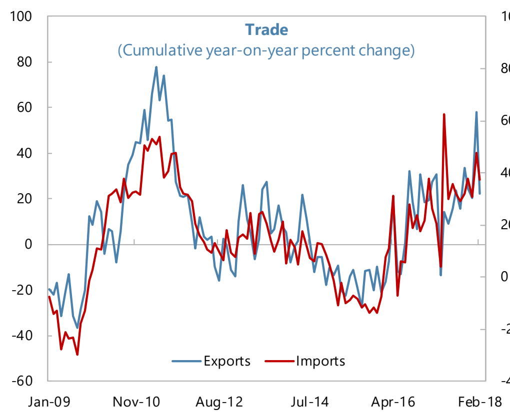
The real exchange rate has continued to appreciate, largely driven by nominal exchange rate developments



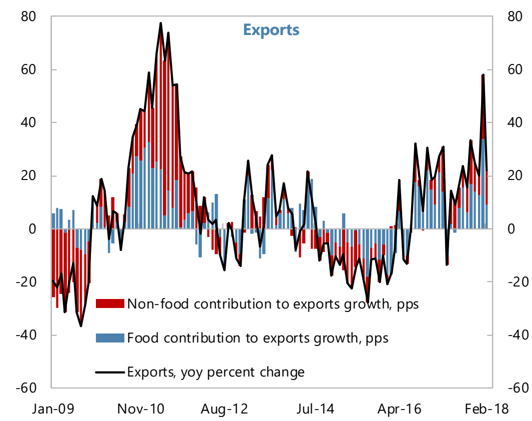
The current account deficit widened in 2017, due to weaker net transfers and a slightly wider trade deficit.



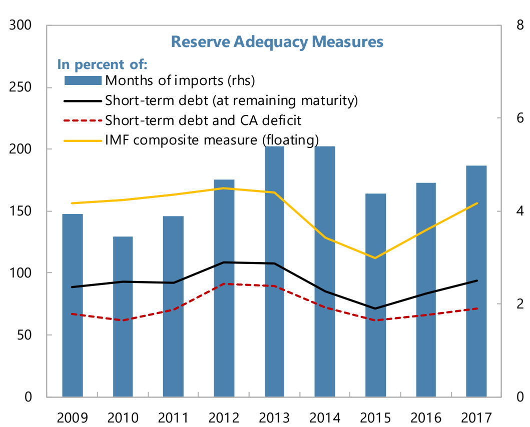
Import and export growth accelerated rapidly during 2017...



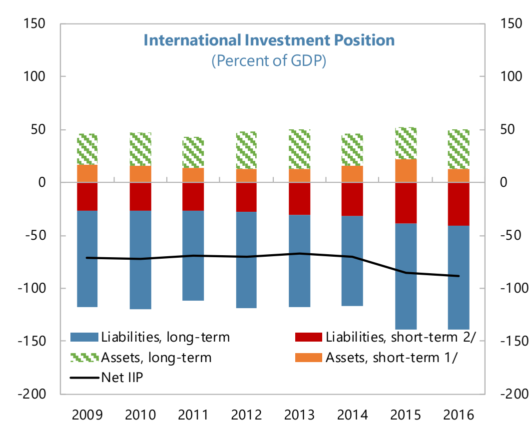
...with much of the increase in exports driven by strong agricultural production and exports.



Reserves continued to accumulate during 2017, reaching 148 percent of the Fund's metric.



The net international investment position was marginally more negative in 2017.



Sources: National Bank of Moldova; Moldovan Authorities; and IMF staff and calculations.
1/ Short-term assets include portfolio investment, financial derivatives, trade credits and currency and deposits.
2/ Short-term liabilities include portfolio investment, financial derivatives, trade credits, short-term loans by banks and other sectors, currency and deposits, short-term other liabilities by general government, banks and other sectors.

Table 1. Moldova: Selected Economic Indicators, 2015–2023 1/

	2015	2016	2017	2018		2019	2020	2021	2022	2023
				2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(Percent change, unless otherwise indicated)						
Real sector indicators										
Gross domestic product										
Real growth rate	-0.4	4.3	4.5	3.0	3.8	3.8	3.8	3.8	3.8	3.8
Demand	-4.0	3.5	5.3	3.5	5.1	4.5	3.9	3.5	3.6	3.6
Consumption	-1.9	3.2	4.0	2.4	5.2	4.0	4.0	3.8	3.8	3.7
Private	-2.2	4.0	4.9	2.2	5.7	4.5	4.4	4.1	4.2	4.1
Public	-0.3	-0.3	0.2	3.3	3.3	2.4	2.4	2.3	2.2	2.2
Gross fixed capital formation	-2.3	-2.1	5.3	8.8	4.8	5.3	5.0	3.2	5.0	5.4
Net Exports of goods and services	13.2	-0.4	-9.4	-5.3	-9.7	-7.0	-4.4	-2.5	-3.1	-2.8
Exports of goods and services	2.9	8.7	12.7	6.1	9.1	6.6	4.5	4.9	4.9	4.8
Imports of goods and services	-4.7	5.2	11.4	5.8	9.3	6.7	4.4	3.9	4.1	4.0
Nominal GDP (billions of Moldovan lei)	122.6	135.4	150.4	160.1	163.0	177.9	193.9	211.5	230.7	251.7
Nominal GDP (billions of U.S. dollars)	6.5	6.8	8.1	9.1	9.7	10.5	10.8	11.4	12.0	12.5
Consumer price index (average)	9.6	6.4	6.6	4.3	3.6	4.9	5.0	5.0	5.0	5.0
Consumer price index (end of period)	13.5	2.4	7.3	3.5	3.0	5.7	5.0	5.0	5.0	5.0
Average monthly wage (Moldovan lei)	4,611	5,084	5697	6150	6,180	6,650	7,250	7,950	8,650	9,425
Average monthly wage (U.S. dollars)	244	255	308	347.9	367	391	403	429	451	467
Unemployment rate (annual average, percent)	4.9	4.2	4.1	4.2	4.1	4.1	4.1	4.0	4.0	4.0
Poverty headcount ratio at national poverty lines (percent)	9.6	…	…	…	…	…	…	…	…	…
				(Percent of GDP)						
Saving-investment balance										
Foreign saving	5.7	4.6	7.9	5.4	7.7	7.0	7.1	6.8	6.6	6.6
National saving	18.3	17.7	13.9	18.2	14.3	15.5	15.5	15.3	15.7	16.0
Private	16.7	17.0	10.8	15.4	11.1	11.9	13.0	12.8	13.3	13.7
Public	1.7	0.8	3.1	2.8	3.2	3.5	2.4	2.5	2.4	2.3
Gross investment	24.1	22.4	21.9	23.7	22.0	22.5	22.6	22.2	22.3	22.6
Private	19.6	18.7	18.0	18.7	17.1	16.5	16.8	17.0	17.1	17.4
Public 2/	4.4	3.7	3.8	5.0	5.0	5.9	5.7	5.2	5.2	5.2
Fiscal indicators (general government)										
Primary balance	-1.5	-0.8	0.3	-2.2	-2.5	-2.8	-2.5	-1.8	-1.7	-1.7
Overall balance	-2.3	-2.1	-1.0	-3.3	-3.5	-3.9	-3.7	-2.9	-2.8	-2.8
Overall balance (baseline, no policy adjustment)	-2.3	-2.1	-1.0	-3.3	-3.5	-3.9	-3.7	-2.9	-2.8	-2.8
Stock of public and publicly guaranteed debt	44.8	41.9	37.0	42.1	37.4	38.5	38.8	38.6	39.8	39.8
				(Percent change, unless otherwise indicated)						
Financial indicators										
Broad money (M3)	-3.0	10.2	9.3	…	…	…	…	…	…	…
Velocity (GDP/end-period M3; ratio)	1.9	1.9	2.0	…	…	…	…	…	…	…
Reserve money	7.1	12.1	11.2	…	…	…	…	…	…	…
Credit to the economy	3.5	-7.6	-3.4	…	…	…	…	…	…	…
Credit to the economy, percent of GDP	34.9	29.1	25.3	…	…	…	…	…	…	…
				(Millions of U.S. dollars, unless otherwise indicated)						
External sector indicators										
Current account balance	-372	-315	-645	-381	-748	-731	-770	-782	-795	-825
Current account balance (percent of GDP)	-5.7	-4.6	-7.9	-4.9	-7.7	-7.0	-7.1	-6.8	-6.6	-6.6
Remittances and compensation of employees (net)	1,386	1,329	1,490	1,440	1,748	1,902	2,002	2,105	2,193	2,262
Gross official reserves	1,757	2,206	2,791	2605	2,947	3,085	3,191	3,247	3,365	3,501
Gross official reserves (months of imports)	4.4	4.6	5.0	5.7	4.9	4.8	4.8	4.6	4.6	4.6
Exchange rate (Moldovan lei per USD, period average)	18.9	19.9	18.5							
Exchange rate (Moldovan lei per USD, end of period)	19.7	20.0	17.2							
Real effective exch.rate (average, percent change)	-3.4	2.3	8.8							
Real effective exch.rate (end-year, percent change)	-2.5	1.8	10.3							
External debt (percent of GDP) 3/	99.4	96.9	84.5	94.9	77.6	77.0	78.9	77.5	77.1	78.4
Debt service (percent of exports of goods and services)	12.5	11.6	10.5	26.2	10.4	9.3	9.4	11.1	11.5	11.0

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

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

3/ Includes private and public and publicly guaranteed debt.

Table 2. Moldova: Balance of Payments, 2015–2023

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

	2015	2016	2017	2018		2019	2020	2021	2022	2023
				2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-372	-315	-645	*-493*	-748	-731	-770	-782	-795	-825
Merchandise trade balance	-1,995	-1,945	-2,393	*-2,494*	-2,868	-3,063	-3,219	-3,358	-3,502	-3,638
Exports	1,985	2,061	2,431	*2,559*	2,795	3,057	3,249	3,435	3,617	3,801
Imports	-3,980	-4,006	-4,823	*-5,053*	-5,664	-6,120	-6,468	-6,792	-7,118	-7,439
Services balance	2	77	140	*117*	179	208	231	253	278	303
Exports of services	829	893	1,058	*1,141*	1,234	1,339	1,416	1,488	1,559	1,627
Imports of services	-827	-816	-918	*-1,024*	-1,055	-1,131	-1,186	-1,235	-1,281	-1,324
Income balance	453	463	513	*587*	642	678	728	769	808	832
Compensation of employees	700	643	759	*793*	900	986	1,045	1,099	1,151	1,189
Income on direct and portfolio investment	-195	-135	-213	*-145*	-224	-248	-256	-271	-285	-296
Income on other investment	-52	-45	-33	*-61*	-34	-59	-61	-60	-59	-61
Current transfer balance	1,168	1,090	1,095	*1,297*	1,300	1,445	1,489	1,555	1,621	1,677
Remittances	686	685	731	*798*	848	916	957	1,006	1,041	1,072
Budget transfers	151	102	86	*155*	110	128	117	108	114	118
Other transfers	331	303	278	*344*	341	402	415	441	466	486
Capital and financial account balance	109	630	1,012	425	770	828	955	890	948	986
Capital account balance	-35	-37	-44	*-32*	-50	-52	-54	-57	-60	-62
Financial account balance	143	667	1,056	*457*	821	881	1,009	947	1,008	1,049
Foreign direct investment balance	155	89	197	*101*	316	266	287	305	322	336
Portfolio investment and derivatives	5	0	1	*4*	4	5	8	10	10	11
Other investment balance	-16	578	858	*352*	501	610	714	632	675	702
Loans	64	16	33	*164*	208	209	274	183	204	231
General government, net	104	46	18	*161*	186	174	229	140	159	192
Private sector, net	-40	-30	15	*3*	22	35	45	43	45	40
Other capital flows	-80	562	825	*188*	293	401	440	450	471	471
Errors and omissions	-51	90	76	*0*	0	0	0	0	0	0
Overall balance	-315	405	442	*-68*	22	97	185	109	152	161
Financing gap	…	196	196	*322*	226	127	0	0	0	0
Financing	314	-404	-443	*68*	-21	-98	-185	-109	-152	-161
Gross international reserves (increase: "+")	-306	531	531	*166*	156	138	106	57	118	136
Use of Fund credit, net	-42	-37	-44	*-20*	-21	-51	-79	-52	-34	-25
Monetary authorities	-35	-37	-44	*-20*	-21	-51	-57	-50	-34	-25
Purchases	0	12	17	*41*	42	7	0	0	0	0
Repurchases	-35	-49	-62	*-61*	-63	-59	-57	-50	-34	-25
General government	-6	0	0	*0*	0	0	-22	-2	0	0
Purchases	0	24	27	*27*	28	28	0	0	0	0
Repurchases	-6	-24	-27	*-27*	-28	-28	-22	-2	0	0
Exceptional financing	49	4	-20	*0*	0	0	0	0	0	0
Other donors		160	152	*254*	156	92				
European Commission		47	43	*194*	126	62				
World Bank		45	0	*60*	30	30				
Romania		68	108	*0*	0	0				
				(Percent of GDP, unless otherwise indicated)						
Memorandum items:										
Gross official reserves (millions of U.S. dollars) 1/	1,757	2,206	2,791	*2,778*	2,947	3,085	3,191	3,247	3,365	3,501
Months of imports of good and services	4.4	4.6	5.0	*5.2*	4.9	4.8	4.8	4.6	4.6	4.6
Percent of short term debt and CA deficit	62.0	66.5	71.2	*71.5*	69.9	67.7	66.3	63.5	63.0	76.2
Pct of short-term debt at remaining maturity	71.1	83.1	93.5	*89.9*	89.0	86.8	82.0	78.1	77.7	76.2
Pct of the IMF composite measure (floating) 2/	112.4	134.9	156.6	*146.2*	148.3	145.9	143.7	139.6	138.7	135.8
Current account balance	-5.7	-4.6	-7.9	*-5.4*	-7.7	-7.0	-7.1	-6.8	-6.6	-6.6
Goods and services trade balance	-30.7	-27.5	-27.7	*-26.2*	-27.8	-27.3	-27.7	-27.2	-26.8	-26.7
Export of goods and services	43.3	43.5	42.9	*40.9*	41.6	42.0	43.2	43.1	43.1	43.5
Import of goods and services	-74.0	-71.0	-70.6	*-67.1*	-69.4	-69.2	-70.9	-70.3	-69.9	-70.2
Foreign direct investment balance	2.4	1.3	2.4	*1.1*	3.3	2.5	2.7	2.7	2.7	2.7
				(Percent change of amounts in U.S.dollars, unless otherwise indicated)						
Exports of goods	-15.7	3.8	18.0	*8.0*	15.0	9.4	6.3	5.7	5.3	5.1
Exports of services	-15.0	7.8	18.4	*11.0*	16.6	8.5	5.8	5.0	4.8	4.4
Imports of goods	-24.3	0.7	20.4	*6.0*	17.4	8.1	5.7	5.0	4.8	4.5
Imports of services	-17.9	-1.2	12.5	*12.0*	15.0	7.1	4.8	4.2	3.7	3.3
Remittances and compensation	-28.1	-4.1	12.1	*9.0*	17.3	8.8	5.2	5.1	4.2	3.1
Remittances	-26.9	-0.1	6.7	*9.0*	16.0	8.0	4.5	5.1	3.5	3.0
Compensation of employees	-29.4	-8.1	18.0	*9.6*	18.6	9.6	6.0	5.2	4.8	3.3
Debt service (pct of exports of goods and services)	12.5	11.6	10.5	*11.2*	10.4	9.3	9.4	11.1	11.5	11.0

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

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

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

Table 3a. Moldova: General Government Budget, 2015–2023
(Millions of Moldovan lei, unless otherwise indicated)

	2015	2016	2017	2018		2019	2020	2021	2022	2023
				2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	43,670	45,947	53,379	*56,999*	57,963	62,157	66,960	72,611	79,072	86,130
Revenues	41,764	44,574	52,371	*54,212*	56,037	60,661	66,102	72,027	78,434	85,435
Tax revenues	38,758	42,502	49,990	*51,895*	53,538	58,046	63,459	69,188	75,490	82,355
Personal income	2,745	3,182	3,649	*3,852*	3,951	4,252	4,626	5,059	5,491	5,991
Corporate income	2,808	3,363	4,074	*4,481*	4,551	5,137	5,761	6,439	7,171	7,823
Property tax	359	404	546	*543*	560	577	588	599	617	673
VAT	13,714	14,564	16,870	*17,294*	17,968	19,611	21,584	23,423	25,585	27,912
Excises	3,844	4,546	5,950	*5,903*	6,165	6,667	7,236	7,981	8,596	9,377
Foreign trade	1,328	1,452	1,591	*1,585*	1,696	1,849	2,062	2,165	2,431	2,652
Other	1,835	1,722	1,796	*1,772*	1,817	1,850	1,875	1,900	2,072	2,261
Social Fund contributions	9,269	10,031	11,866	*12,546*	12,866	13,842	15,087	16,540	17,996	19,633
Health Fund contributions	2,855	3,240	3,648	*3,920*	3,964	4,262	4,641	5,083	5,530	6,033
Non-tax revenues	3,006	2,072	2,381	*2,317*	2,499	2,615	2,643	2,839	2,945	3,080
NBM profit transfers	889	0	0	*0*	0	0	0	0	0	0
Grants	1,906	1,373	1,009	*2,787*	1,926	1,496	858	584	637	695
Budget support	0	953	741	*2,189*	1,285	648	189	234	255	279
Project	1,906	420	268	*598*	641	848	668	350	382	417
Expenditure and net lending	46,502	48,774	54,823	*62,264*	63,644	69,097	74,135	78,745	85,532	93,178
Current expenditure	41,059	43,773	49,091	*54,288*	55,558	58,572	62,989	67,729	73,588	80,033
Wages	10,530	10,967	12,506	*13,769*	14,030	14,947	16,097	17,343	18,690	20,390
Goods and services	10,151	9,498	10,587	*11,645*	11,645	12,579	13,578	14,808	16,154	17,624
Interest payments	1,099	1,812	1,959	*1,962*	1,680	1,978	2,242	2,324	2,544	2,878
Domestic	832	1,477	1,581	*1,540*	1,274	1,405	1,492	1,495	1,668	1,877
Foreign	268	334	378	*422*	406	572	750	830	876	1,001
Transfers	16,903	18,198	20,383	*21,628*	22,091	22,443	24,121	26,046	28,579	31,342
Transfers to economy 1/	2,126	1,799	2,417	*2,134*	2,620	2,860	3,118	3,400	3,709	4,047
Transfers to households	14,777	16,399	17,966	*19,494*	19,471	19,583	21,003	22,646	24,869	27,295
Other current expenditure	2,376	3,299	3,655	*5,285*	6,112	6,625	6,953	7,208	7,621	7,800
Capital expenditure	5,443	5,000	5,733	*7,975*	8,087	10,525	11,146	11,016	11,944	13,146
Of which: SOEs onlending projects		340	299	*550*	618	1,201	1,752	1,322	1,442	1,573
One-off revenue and expenditure items 2/	0	-13,341	0	*0*	0	0	0	0	0	0
Augmented overall balance (incl. one-off items) 3/	-2,832	-16,168	-1,444	*-5,264*	-5,681	-6,940	-7,176	-6,134	-6,461	-7,048
Augmented overall balance (excl. one-off items) 3/	-2,832	-2,827	-1,444	*-5,264*	-5,681	-6,940	-7,176	-6,134	-6,461	-7,048
Augmented primary balance (excl. one-off items) 3/	-1,816	-1,131	510	*-3,591*	-4,041	-5,004	-4,938	-3,814	-3,921	-4,175
Financing (excl. one-off items)	2,832	107	-906	*2,489*	3,904	5,560	7,176	6,134	6,461	7,048
Budget financing	260	-1,431	-1,750	*-1,574*	-450	1,729	304	559	1,178	1,277
Central government	133	-451	-1,265	*-1,380*	32	2,066	304	559	1,178	1,277
Net domestic	17	-127	-581	*87*	1,601	3,601	2,402	2,694	3,265	2,872
Net foreign (excl. project loans)	-437	-710	-1,187	*-2,210*	-2,208	-2,354	-2,134	-2,284	-2,237	-1,795
Privatization	35	279	153	*261*	157	337	36	150	150	200
Others	518	108	350	*482*	482	482	0	0	0	0
Local governments	0	-794	-285	*-194*	-277	-337	0	0	0	0
Privatization	19	18	6	*2*	5	-337	0	0	0	0
Social Fund	37	-96	-204	*0*	-204	0	0	0	0	0
Health Fund	90	-91	4	*0*	0	0	0	0	0	0
Net project loans	2,333	1,538	844	*4,063*	4,354	3,831	6,871	5,574	5,283	5,771
Of which: Onlending (through commercial banks)	0	-38	-530	*-642*	-611	-1,642	0	0	0	0
Financing gap	0	2,719	2,350	*2,775*	1,776	1,379	0	0	0	0
World Bank	…	889	0	*1,061*	505	510	0	0	0	0
IMF	0	480	0	*473*	465	472	0	0	0	0
Others	…	1,350	2,350	*1,241*	807	397	0	0	0	0
Financing for one-off items										
Government securities issued	0	13,341	0	*0*	0	0	0	0	0	0
				(Millions of Moldovan lei)						
Memorandum items:										
Public and publicly guaranteed debt	54,943	56,793	55,707	*67,376*	60,874	68,533	75,295	81,580	90,955	100,125
General Government debt	47,166	49,594	49,834	*62,108*	55,490	63,861	71,397	78,561	88,456	98,013
Domestic debt	20,809	21,520	22,579	*25,933*	23,325	25,494	25,896	28,590	31,855	34,727
Domestic expenditure arrears	744	101	40	*0*	0	0	0	0	0	0
External debt	25,613	27,973	27,216	*36,175*	32,165	38,367	45,501	49,971	56,601	63,287
Other 4/	7,777	7,199	5,873	*5,268*	5,385	4,673	3,898	3,019	2,499	2,112

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

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

2/ Includes banking sector resolution costs in 2016.

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

4/ Includes mainly central bank liabilities to the IMF.

Table 3b. Moldova: General Government Budget, 2015–2023
(Percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018		2019	2020	2021	2022	2023
				2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and grants	35.6	33.9	35.5	*35.6*	35.6	34.9	34.5	34.3	34.3	34.2
Revenues	34.1	32.9	34.8	*33.9*	34.4	34.1	34.1	34.1	34.0	33.9
Tax revenues	31.6	31.4	33.2	*32.4*	32.9	32.6	32.7	32.7	32.7	32.7
Personal income	2.2	2.3	2.4	*2.4*	2.4	2.4	2.4	2.4	2.4	2.4
Corporate income	2.3	2.5	2.7	*2.8*	2.8	2.9	3.0	3.0	3.1	3.1
Property tax	0.3	0.3	0.4	*0.3*	0.3	0.3	0.3	0.3	0.3	0.3
VAT	11.2	10.8	11.2	*10.8*	11.0	11.0	11.1	11.1	11.1	11.1
Excises	3.1	3.4	4.0	*3.7*	3.8	3.7	3.7	3.8	3.7	3.7
Foreign trade	1.1	1.1	1.1	*1.0*	1.0	1.0	1.1	1.0	1.1	1.1
Other	1.5	1.3	1.2	*1.1*	1.1	1.0	1.0	0.9	0.9	0.9
Social Fund contributions	7.6	7.4	7.9	*7.8*	7.9	7.8	7.8	7.8	7.8	7.8
Health Fund contributions	2.3	2.4	2.4	*2.4*	2.4	2.4	2.4	2.4	2.4	2.4
Non-tax revenues	2.5	1.5	1.6	*1.4*	1.5	1.5	1.4	1.3	1.3	1.2
NBM profit transfers	0.7	0.0	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.6	1.0	0.7	*1.7*	1.2	0.8	0.4	0.3	0.3	0.3
Budget support	0.0	0.7	0.5	*1.4*	0.8	0.4	0.1	0.1	0.1	0.1
Project	1.6	0.3	0.2	*0.4*	0.4	0.5	0.3	0.2	0.2	0.2
Expenditure and net lending	37.9	36.0	36.5	*38.9*	39.1	38.8	38.2	37.2	37.1	37.0
Current expenditure	33.5	32.3	32.6	*33.9*	34.1	32.9	32.5	32.0	31.9	31.8
Wages	8.6	8.1	8.3	*8.6*	8.6	8.4	8.3	8.2	8.1	8.1
Goods and services	8.3	7.0	7.0	*7.3*	7.1	7.1	7.0	7.0	7.0	7.0
Interest payments	0.9	1.3	1.3	*1.2*	1.0	1.1	1.2	1.1	1.1	1.1
Domestic	0.7	1.1	1.1	*1.0*	0.8	0.8	0.8	0.7	0.7	0.7
Foreign	0.2	0.2	0.3	*0.3*	0.2	0.3	0.4	0.4	0.4	0.4
Transfers	13.8	13.4	13.6	*13.5*	13.6	12.6	12.4	12.3	12.4	12.5
Transfers to economy 1/	1.7	1.3	1.6	*1.3*	1.6	1.6	1.6	1.6	1.6	1.6
Transfers to households	12.1	12.1	11.9	*12.2*	11.9	11.0	10.8	10.7	10.8	10.8
Other current expenditure	1.9	2.4	2.4	*3.3*	3.8	3.7	3.6	3.4	3.3	3.1
Capital expenditure	4.4	3.7	3.8	*5.0*	5.0	5.9	5.7	5.2	5.2	5.2
Of which: SOEs onlending projects		0.3	0.2	*0.3*	0.4	0.7	0.9	0.6	0.6	0.6
One-off revenue and expenditure items 2/	0.0	-9.9	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Augmented overall balance (incl. one-off items) 3/	-2.3	-11.9	-1.0	*-3.3*	-3.5	-3.9	-3.7	-2.9	-2.8	-2.8
Augmented overall balance (excl. one-off items) 3/	-2.3	-2.1	-1.0	*-3.3*	-3.5	-3.9	-3.7	-2.9	-2.8	-2.8
Augmented primary balance (excl. one-off items) 3/	-1.5	-0.8	0.3	*-2.2*	-2.5	-2.8	-2.5	-1.8	-1.7	-1.7
Financing (excl. one-off items)	2.3	0.1	-0.6	*1.6*	2.4	3.1	3.7	2.9	2.8	2.8
Budget financing	0.2	-1.1	-1.2	*-1.0*	-0.3	1.0	0.2	0.3	0.5	0.5
Central government	0.1	-0.3	-0.8	*-0.9*	0.0	1.2	0.2	0.3	0.5	0.5
Net domestic	0.0	-0.1	-0.4	*0.1*	1.0	2.0	1.2	1.3	1.4	1.1
Net foreign (excl. project loans)	-0.4	-0.5	-0.8	*-1.4*	-1.4	-1.3	-1.1	-1.1	-1.0	-0.7
Privatization	0.0	0.2	0.1	*0.2*	0.1	0.2	0.0	0.1	0.1	0.1
Others	0.4	0.1	0.2	*0.3*	0.3	0.3	0.0	0.0	0.0	0.0
Local governments	0.0	-0.6	-0.2	*-0.1*	-0.2	-0.2	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
Social Fund	0.0	-0.1	-0.1	*0.0*	-0.1	0.0	0.0	0.0	0.0	0.0
Health Fund	0.1	-0.1	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Net project loans	1.9	1.1	0.6	*2.5*	2.7	2.2	3.5	2.6	2.3	2.3
Of which: Onlending (through commercial banks)	0.0	0.0	-0.4	*-0.4*	-0.4	-0.9	0.0	0.0	0.0	0.0
Financing gap	0.0	2.0	1.6	*1.7*	1.1	0.8	0.0	0.0	0.0	0.0
World Bank		0.7	0.0	*0.7*	0.3	0.3	0.0	0.0	0.0	0.0
IMF	0.0	0.4	0.0	*0.3*	0.3	0.3	0.0	0.0	0.0	0.0
Others		1.0	1.6	*0.8*	0.5	0.2	0.0	0.0	0.0	0.0
Financing for one-off items										
Government securities issued	0.0	9.9	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Public and publicly guaranteed debt	44.8	41.9	37.0	*42.1*	37.4	38.5	38.8	38.6	39.4	39.8
General Government debt	38.5	36.6	33.1	*38.8*	34.1	35.9	36.8	37.1	38.3	38.9
Domestic debt	17.0	15.9	15.0	*16.2*	14.3	14.3	13.4	13.5	13.8	13.8
Domestic expenditure arrears	0.6	0.1	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
External debt	20.9	20.7	18.1	*22.6*	19.7	21.6	23.5	23.6	24.5	25.1
Other 4/	6.3	5.3	3.9	*3.3*	3.3	2.6	2.0	1.4	1.1	0.8

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

1/ As of 2016, capital transfers are excluded from transfers to economy and recorded under capital expenditure.
2/ Includes banking sector resolution costs in 2016.
3/ Augmented balance includes externally financed on-lending to SOEs.
4/ Includes mainly central bank liabilities to the IMF.

Table 4. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2012–18 1/

(Millions of Moldovan lei, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018
							Proj.
National Bank of Moldova							
Net foreign assets 1/	24,690	30,969	27,540	27,826	37,695	42,153	44,746
NFA (convertible)	24,693	31,006	27,539	27,850	38,041	43,045	45,784
Gross reserves	30,339	36,829	33,676	34,536	44,078	47,936	50,251
Reserve liabilities	5,647	5,823	6,137	6,686	6,037	4,891	4,466
Net domestic assets	-4,159	-4,891	182	1,863	-4,419	-5,156	-4,426
Net claims on general government	192	476	-270	-1,163	10,397	7,964	7,056
Credit to banks	-3,451	-2,340	7,427	13,399	-5,915	-9,217	-10,895
Other items (net)	-900	-3,027	-6,975	-10,373	-8,901	-3,903	-587
Reserve money	20,531	26,078	27,722	29,689	33,276	36,997	40,319
Currency in circulation	13,241	17,550	17,500	15,509	17,274	19,053	20,333
Banks' reserves	7,285	8,515	10,222	13,335	15,007	17,240	19,986
Required reserves	5,202	6,346	6,290	11,521	13,494	16,266	19,185
Other reserves	2,082	2,169	3,932	1,814	1,513	974	801
Monetary survey							
Net foreign assets	23,141	31,550	43,153	48,815	61,523	67,879	73,470
NFA (convertible)	23,427	31,731	37,497	43,317	55,633	61,871	67,449
Of which: commercial banks	-1,266	725	9,958	15,466	17,593	18,826	21,665
Foreign assets of commercial banks	4,778	10,496	19,005	22,205	22,274	23,237	27,197
Foreign liabilities of commercial banks	-6,044	-9,770	-9,047	-6,739	-4,681	-4,411	-5,532
NFA (non-convertible)	-286	-181	5,656	5,499	5,889	6,008	6,691
Net domestic assets	26,372	31,081	22,820	15,191	8,997	9,177	12,382
Net claims on general government	1,004	1,387	821	-177	12,586	11,453	12,280
Credit to economy	35,948	42,633	41,273	42,721	39,455	38,102	37,761
Moldovan lei	20,624	25,289	25,173	24,219	21,656	21,657	20,953
Foreign exchange	15,324	17,343	16,100	18,502	17,798	16,445	16,723
in U.S. dollars	1,270	1,328	1,031	941	891	957	996
Other items (net)	-10,580	-12,996	-19,274	-27,226	-43,044	-40,388	-37,660
Broad money (M3)	49,513	62,632	65,973	64,006	70,520	77,056	85,853
Broad money (M2: excluding FCD)	34,915	45,117	43,220	39,261	46,430	52,989	59,244
Currency in circulation	13,241	17,550	17,509	15,509	17,274	19,053	20,333
Total deposits	36,272	45,081	48,464	48,497	53,245	58,003	65,519
Domestic currency deposits	21,674	27,567	25,711	23,751	29,155	33,937	38,911
Foreign currency deposits (FCD)	14,599	17,514	22,753	24,745	24,090	24,067	26,609
in U.S. dollars	1,210	1,341	1,457	1,259	1,206	1,401	1,585
Memorandum items:							
Reserve money growth (percent change; annual)	19.7	27.0	6.3	7.1	12.1	11.2	9.0
Broad money growth (percent change; annual)	20.8	26.5	5.3	-3.0	10.2	9.3	11.4
Credit to economy (percent change, annual)	16.1	18.6	-3.2	3.5	-7.6	-3.4	-1.1
in lei	20.1	22.6	-0.5	-3.8	-10.6	0.0	-3.3
in foreign exchange ($ equivalent)	8.1	4.6	-22.4	-8.7	-5.4	7.4	3.0
Gross international reserves (millions of U.S. dollars)	2,515	2,821	2,157	1,757	2,206	2,790	2,962
Percent of domestic-currency broad money	87	82	78	88	95	90	85
Net international reserves (millions of U.S. dollars)	2,047	2,375	1,764	1,417	1,904	2,505	2,681
Broad money multiplier	2.4	2.4	2.4	2.2	2.1	2.1	2.1

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

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

Table 5. Moldova: Financial Soundness Indicators, 2012–18

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

	2012	2013	2014	2015	2016				2017				2018
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
Size													
Number of banks	14	14	14	11	11	11	11	11	11	11	11	11	11
Total bank assets (billions of lei)	58.3	76.2	97.5	69.1	69.7	70.6	72.7	72.9	74.0	75.0	77.5	79.5	81.0
Total bank assets (percent of GDP)	66.1	76.3	87.0	56.7	51.8	52.5	54.1	54.2	49.9	50.6	52.3	52.9	53.9
Capital adequacy													
Capital adequacy ratio	24.8	23.4	13.2	26.2	27.8	27.0	28.7	30.1	29.7	28.9	30.7	31.0	33.2
Liquidity													
Liquid assets (billions of lei)	19.2	25.7	21.1	28.7	29.5	31.8	34.3	35.9	37.2	38.5	41.3	44.1	46.0
Total deposits (billions of lei)	39.8	51.9	65.5	50.2	50.1	52.2	54.3	54.8	55.6	56.2	58.2	59.9	60.6
Liquidity ratio (liquid assets in percent of total deposits)	48.2	49.6	32.2	57.2	58.9	60.8	63.3	65.5	67.0	68.5	71.0	73.7	75.9
Liquid assets in total assets	32.9	33.8	21.6	41.5	42.3	45.0	47.2	49.2	50.3	51.3	53.2	55.5	56.8
Asset quality													
Gross loans (billions of lei)	35.0	42.2	40.8	38.2	37.9	37.2	36.3	34.8	34.2	34.2	33.8	33.5	32.4
Nonperforming loans (billions of lei)	5.1	4.9	4.8	3.8	4.2	6.0	5.7	5.7	5.5	6.0	5.9	6.2	5.3
Nonperforming loans as a share of total loans	14.5	11.6	11.7	9.9	11.1	16.1	15.8	16.4	16.2	17.6	17.4	18.4	16.2
Provisions to non-performing loans	73.5	83.6	88.4	85.5	86.4	73.6	78.7	81.8	84.9	83.8	83.6	80.6	84.1
Profitability													
Return on equity	5.6	9.4	6.1	12.8	15.7	14.2	15.0	12.0	15.3	14.6	14.3	11.1	15.2
Return on assets	1.1	1.6	0.9	2.1	2.6	2.3	2.5	2.0	2.6	2.4	2.4	1.8	2.4
Foreign currency assets and liabilities													
Foreign currency denominated liabilities in total liabilities	48.9	51.0	49.5	52.8	51.7	49.3	47.4	46.8	46.2	44.9	46.4	44.1	44.4
Foreign currency denominated assets in total assests	40.9	44.7	47.0	42.5	41.6	41.5	39.6	38.9	38.0	37.5	38.5	36.8	37.1
Foreign currency deposits in total deposits	40.2	44.7	52.1	52.5	51.8	48.8	47.0	46.5	45.7	44.5	46.0	42.8	42.7
Foreign currency denominated loans in total loans	42.6	40.4	39.8	42.1	43.4	43.5	44.6	44.3	43.3	41.6	41.4	41.7	40.3

Source: National Bank of Moldova.

Table 6. Moldova: Schedule of Reviews and Disbursements 1/

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

Source: IMF staff estimates.

1/ Moldova's quota is SDR 172.5 million.

Table 7. Moldova: Indicators of Fund Credit, 2011–2023 1/

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
								Projection					
Fund obligations based on existing credit (millions of SDRs)													
Principal	3.9	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	21.9	10.2
Charges and interest	0.8	1.2	1.6	1.6	1.5	1.4	1.9	3.0	2.9	2.5	2.1	1.7	1.5
Fund obligations based on existing and prospective credit													
Principal	3.9	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	23.2	17.0
Charges and interest	0.8	1.2	1.6	1.6	1.5	1.4	1.9	3.4	3.8	3.4	3.0	2.6	2.4
Total obligations based on existing and prospective credit													
Millions of SDRs	4.7	11.7	15.8	20.9	30.6	53.9	65.4	65.8	62.8	56.8	38.3	25.9	19.4
Millions of U.S. dollars	7.2	18.5	24.3	31.9	48.3	82.6	99.4	100.0	95.5	86.2	58.2	39.3	29.4
Percent of exports of goods and services	0.2	0.6	0.7	1.0	1.7	2.8	2.8	2.5	2.2	1.8	1.2	0.8	0.5
Percent of debt service 2/	8.2	20.3	24.0	31.1	52.4	66.4	54.1	41.5	35.3	31.4	22.2	17.0	13.5
Percent of GDP	0.1	0.3	0.3	0.4	0.7	1.2	1.2	1.0	0.9	0.8	0.5	0.3	0.2
Percent of gross international reserves	0.4	0.7	0.9	1.5	2.8	3.7	3.6	3.4	3.1	2.7	1.8	1.2	0.8
Percent of quota	3.8	9.5	12.8	17.0	24.8	31.3	37.9	38.2	36.4	32.9	22.2	15.0	11.2
Outstanding Fund credit based on existing and prospective credit													
Millions of SDRs	308.7	398.2	384.0	364.7	335.6	309.1	277.0	262.6	227.5	174.2	138.9	115.7	98.0
Millions of U.S. dollars	472.4	628.8	592.0	556.4	529.8	473.4	421.0	399.0	345.8	264.7	211.1	175.8	148.9
Percent of exports of goods and services	15.0	20.1	17.1	16.7	18.8	16.0	12.1	9.9	7.9	5.7	4.3	3.4	2.7
Percent of debt service 2/	539.7	687.7	583.3	542.5	574.7	380.7	228.9	165.5	127.8	96.4	80.5	75.9	68.1
Percent of GDP	6.7	8.6	7.4	7.0	8.2	7.0	5.2	4.1	3.3	2.5	1.8	1.5	1.2
Percent of gross international reserves	24.0	25.0	21.0	25.8	30.2	21.5	15.1	13.5	11.2	8.3	6.5	5.2	4.3
Percent of quota	250.6	323.2	311.7	296.1	272.4	179.2	160.6	152.2	131.9	101.0	80.5	67.1	56.8
Net use of Fund credit (millions of SDRs)	96.1	89.5	-14.2	-19.3	-29.1	-26.5	-32.1	-14.5	-35.0	-53.4	-35.3	-23.2	-17.0
Disbursements and purchases 3/	100.0	100.0	0.0	0.0	0.0	26.0	31.4	48.0	24.0	0.0	0.0	0.0	0.0
Repayments and repurchases	3.9	10.5	14.2	19.3	29.1	52.5	63.5	62.5	59.0	53.4	35.3	23.2	17.0
Memorandum items:													
Exports of goods and services (millions of U.S. dollars)	3,143	3,135	3,462	3,329	2,813	2,954	3,489	4,029	4,396	4,666	4,922	5,175	5,428
Debt service (millions of U.S. dollars) 2/	87.5	91.4	101.5	102.6	92.2	124.4	183.9	241.1	270.5	274.4	262.2	231.6	218.7
Nominal GDP (millions of U.S. dollars) 2/	7,018	7,283	7,985	7,983	6,496	6,796	8,129	9,684	10,475	10,792	11,426	12,018	12,480
Gross International Reserves (millions of U.S. dollars)	1,965	2,515	2,821	2,157	1,757	2,206	2,791	2,947	3,085	3,191	3,247	3,365	3,501
Average exchange rate: SDR per U.S. dollars	0.7	0.6	0.6	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Quota (millions of SDRs)	123.2	123.2	123.2	123.2	123.2	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5

Sources: IMF staff estimates and projections.

1/ Assume repurchases are made on obligations schedule.

2/ Total debt service includes IMF repurchases and repayments.

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

Table 8. Moldova: Quantitative Performance Targets, December 2017–March 2019

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

	Dec 2017			Mar 2018		Jun 2018		Sept 2018	Dec 2018	Mar 2019
	Target	Adjusted Target 5/	Actual	Target	Actual	EBS/17/130 Target	Revised Target	Target	Proposed Target	Target
1. Quantitative performance criteria 1/										
Ceiling on the ***augmented*** cash deficit of the general government	5,513	5,308	1,444	1,339	-1,099	3,548	4,290	4,986	5,681	1,985
Of which: on-lending agreements with external creditors to state-owned enterprises	504	504	299	170	32	257	275	309	618	30
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) 2/	2,131	2,131	2,463	2,368	2,518	2,349	2,431	2,592	2,629	2,752
2. Continuous performance criteria										
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	0	0	0	0	0	0	0
Ceiling on absorption by the government of losses or liabilities and making of payments on behalf of utilities and other companies	0	0	0	0	0	0	0	0	0	0
3. Indicative targets										
Ceiling on the stock of accumulated domestic government arrears 3/	0	0	3	0	7	0	0	0	0	0
Ceiling on the general government wage bill	12,657	12,657	12,506	3,287	3,282	7,244	7,616	10,935	14,030	3,968
Floor on priority social spending of the general government	17,660	17,660	17,615	4,598	4,461	9,463	9,291	13,985	19,280	4,873
Floor on project spending funded from external sources 4/	N/A	N/A	N/A	262	98	647	433	1,366	2,963	148
4. Inflation Consultation Bands (in percent)										
Outer Band (upper limit)	9.0	9.0		7.8		5.6	5.2	5.0	5.0	5.8
Inner Band (upper limit)	8.0	8.0		6.8		4.6	4.2	4.0	4.0	4.8
Center point	7.0	7.0	7.3	5.8	4.7	3.6	3.2	3.0	3.0	3.8
Inner Band (lower limit)	6.0	6.0		4.8		2.6	2.2	2.0	2.0	2.8
Outer Band (lower limit)	5.0	5.0		3.8		1.6	1.2	1.0	1.0	1.8

1/ Indicative targets for September 2018 and March 2019.

2/ The NIR target is set as specified in the TMU.

3/ As of January 2017, domestic expenditure arrears exclude local governments.

4/ N/A - target is new for 2018, and thus applicable only going forward.

5/ Adjusted for shortfall between the total amount of actually disbursed and programmed onlending from external creditors to SOEs as per the TMU.

Table 9. Moldova: Proposed Prior Actions and Structural Benchmarks Under the ECF/EFF

	Measure		Timeframe
Prior Actions for Board Consideration of the Review			
1	Adopt amendments to budget 2018 consistent with the augmented deficit ceiling.		
2	The General Prosecutor's Office to publish a high-level asset recovery strategy, setting out a time-bound action plan for the recovery of stolen assets.		
3	Adopt legal amendments to the new shareholder removal model to incentivize effective and timely action.		
Structural Benchmarks 1/			
Financial Sector			
1	NBM to allow a systemic bank to exit temporary administration in an orderly manner.	Modified	End-October 2018
2	NBM to remove unfit shareholders in domestic non-systemic banks.	New	End-March 2019
3	NBM to ensure that credible time-bound action plans are in place for unwinding RP exposures for all domestic banks that are not part of foreign groups.	New	End-July 2018
Energy sector			
4	In the electricity sector, new tariffs will be fully based on the February 2018 methodology and will also reflect differences in the assessment of financial deviations from April 2017-February 2018	New	End-June 2018

1/ Additional structural benchmarks will be set at the time of subsequent program reviews.

Table 10. Moldova: Status of Existing Structural Benchmarks Under the ECF/EFF

	Measure	Timeframe	Status
Financial Sector			
1	Finalize onsite inspections in:		
	1a) two small domestic banks that are not part of foreign banking group	End-January 2018	Met with delay
	1b) banks that are part of foreign groups	End-May 2018	Not met
2	Finalize investigations into concerted activities, and fitness and probity of shareholders in non-systemic banks	End-March 2018	Met
3	NBM to allow a systemic bank to exit temporary administration in an orderly manner.	End-June 2018	Reset to end-October 2018
4	Adopt a new framework for removing concerted and otherwise unfit shareholders, to streamline the process and address governance issues.	End-April 2018	Met with delay 1/
5	NBM to instruct all banks to conduct self-assessment of corporate governance.	End-August 2018	Met
6	NBM to order the largest three banks to submit time-bound plans for full compliance with NBM executive board decisions on RP improvement.	End-January 2018	Met with delay
7	NBM to develop and issue for consultation with the banks guidelines for RP risk management programs.	End-June 2018	Met
8	NCFM to complete the verification of the legal records of all banks and insurance companies, including through a public awareness campaign.	End-March 2018	Met
9	Government to publish an analytical report prepared by an independent investigator on the 2014 bank fraud, and adopt a strategy with time-bound actions to recover assets.	End-December 2017	Met with delay 2/
Energy sector			
10	Develop approve, and publish a new tariff methodology, in line with the new Energy law, and in agreement with the Energy Community Secretariat, and consulting with other stakeholders, including the World Bank, electricity distribution companies and CSO.	Mid-February 2018	Met with delay

1/ This structural benchmark became a prior action for Board consideration of the Review.

2/ The Government published an analytical report prepared by an independent investigator on the 2014 bank fraud; adoption of a strategy with time-bound actions to recover assets was established as a prior action for Board consideration of the third program review.

Table 11. Moldova: External Financing Requirements and Sources, 2016–19

(Millions of U.S. dollars)

	2016	2017	2018	2019
			Projection	
Identified financing sources	943	1280	1024	1137
Financing requirements	607	944	1093	1126
of which: fiscal financing requirements	33	48	104	128
Change in gross reserves (increase = +)	531	531	156	138
Financing gap	194	196	225	127
Official Financing	195	196	225	127
Identified program financing	160	152	156	92
European Commission	47	43	126	62
World Bank	45	0	30	30
Romania	68	108	0	0
Fund Program	35	44	70	35
of which: budget support	24	27	28	28

Sources: Moldovan authorities and IMF staff projections.

Annex I. Risk Assessment Matrix 1/

Source of Risks	Impact if realized	Policy response
Policy and geopolitical uncertainties:		
Regional political instability: Political instability could undermine economic activity by creating economic uncertainty and eroding investor and consumer confidence.	An escalation in political instability could lead to further changes in trade patterns and commodity markets, pattern of remittances, and capital flows, with significant impacts on the Moldovan economy.	➢ Exchange rate flexibility should be main response to external shocks. ➢ Continue to build fiscal space to respond to adverse shocks and strengthen external buffers. ➢ Accelerate structural reforms to increase external competitiveness and diversify international trade and energy sources.
Weaker-than-expected global growth:		
Structurally weak growth in key advanced economies: Low productivity growth (U.S., euro Area, and Japan), high debt, and failure to fully address crisis legacies by undertaking structural reforms amidst and persistently low inflation (euro Area and Japan) undermine medium-term growth.	Lower export demand, declining remittances and other financial flows (such as trade credits or grants) would lower growth, weaken the fiscal position, and exacerbate difficulties in the banking sector.	➢ Exchange rate flexibility should be the main response to external shocks. ➢ Continue to build fiscal space to respond to adverse shocks and strengthen external buffers. ➢ Accelerate structural reforms to increase external competitiveness, diversify the economy and boost productivity.
Significant U.S. slowdown and its spillovers: As the current recovery ages and vulnerabilities build up, the risks of a sharper-than-expected slowdown increase. The proximate causes could be a fiscal contraction associated with the eventually planned withdrawal of the tax stimulus or market fears of overheating. A sharp adjustment necessitated by relatively limited fiscal space would create global spillovers.		
Domestic risks:		
Political risks. Program implementation could be tested in the run-up to parliamentary elections end-2018.	Delays in cleansing and restructuring the sector could result in lower business sentiment, and decline of FDI and business confidence. As a result, the costs of dealing with bank distress could increase and credit supply would decline, dampening growth	➢ Apply promptly appropriate tools under the new resolution framework. ➢ Enforce shareholder and beneficial ownership transparency. ➢ Deal with the restructuring of banks with unfit and improper management and shareholders. ➢ Enhance regulator's independence. ➢ Step up anti-corruption and AML/CFT efforts.
Financial sector risks. Progress on banking sector reforms, including improved governance and risk management, hinges on continued political commitment to strengthen the sector.		
Broader reform risks. Addressing infrastructure gaps, improving investment efficiency, increasing the quality of human capital along with regulatory and institutional reforms, are needed to increase potential growth and combat the shadow economy.	Insufficient progress in implementing key structural reforms would weaken growth, with adverse impacts on emigration, the investment climate and the size of the shadow economy.	➢ Early successes from steadfast implementation of reforms can help build support for further reforms.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. Note: Colored boxes on the left-hand side represent shock likelihood in case the baseline does not materialize, and color boxes in the center represent the severity of impact. Red = High, Orange = Medium, and Green = Low.

Appendix I. Letter of Intent

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

Chişinău, June 15, 2018

Dear Ms. Lagarde:

1. Moldova is maintaining its efforts to drive ahead with our ambitious reform program, supported by the Fund's Extended Fund Facility and Extended Credit Facility Arrangements. We met all quantitative performance criteria and 9 of 11 structural benchmarks. We continue to extend our period of economic growth and financial stability, with growth picking up in 2017 to 4.5 percent, and expected to remain solid into 2018. This growth remains essential to job creation and poverty reduction. Despite these important developments, challenges remain.

2. We remain committed to consolidating economic and financial stability, through cleansing the financial sector, strengthening our regulatory and supervisory environment, and raising growth and employment. We will continue to pursue a wide-ranging reform agenda:

- In the **financial sector**, we will update the framework for removing shareholders in banks, take action to address related party lending, improve banks' corporate governance, operationalize the new central securities depository, and verify the integrity of share registration. We will also strengthen further our regulatory and supervisory frameworks, including for non-bank financial institutions.

- Our **fiscal policy** remains in line with program objectives. Our priorities include public investment and social spending, tax and customs reforms, and improving the efficiency of spending.

- In the **energy sector** we will continue to improve transparency, predictability and good governance, including by working closely with relevant sector stakeholders. New tariffs in the electricity sector will be fully based on the new methodology and will also reflect past financial deviations.

3. On the basis of our performance to date, our ongoing commitment to the objectives of the program, the specific commitments outlined in the attached Supplementary MEFP, and recently implemented upfront actions, we request the completion of the third review under the blended

Extended Credit Facility and Extended Fund Facility arrangements; modification and establishment of Quantitative Performance Criteria and Indicative Targets through March 2019 (Table 1); establishment of Structural Benchmarks through end-December 2018 (Table 2); and associated disbursement of SDR 24.0 million.

4. The authorities remain strongly committed to the implementation of the program and stands ready to take additional measures that may be adequate for the successful implementation of the program. The government will consult with the Fund on the adoption of such measures and in advance of revisions to the policies contained in the MEFP in accordance with the Fund's policies on such consultations. We will provide the Fund with the information it requests for monitoring our progress. Maintaining our commitment to the policy of transparency, we consent to the publication of this letter, the attached SMEFP, and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

/s/
Pavel Filip
Prime Minister, Government
of the Republic of Moldova

/s/
Chiril Gaburici
Minister of Economy
and Infrastructure

/s/
Octavian Armaşu
Minister of Finance

/s/
Sergiu Cioclea
Governor
National Bank of Moldova

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

Attachment I. Supplementary Memorandum of Economic and Financial Policies

I. Recent Developments and Outlook

1. **Macroeconomic performance remains solid.** Growth surprised on the upside and held up at 4.5% in 2017, supported by strong domestic demand and a positive external environment. Domestic demand picked up sharply, largely driven by private consumption and investment growth that turned positive for the first time since the 2014 crisis. Stronger domestic demand was offset by a larger drag from net trade, with imports picking up by more than exports. As expected, inflation has slowed back towards the NBM target. CPI inflation peaked at 7.9 percent in late 2017 and declined to 2.8 percent in May 2018, largely driven by changes to regulated and food prices. During the reporting period, the base inflation was evolving around 5%, at the center of the NBM inflation target corridor.

2. **The fiscal balance overperformed program targets.** The augmented overall deficit reached 1 percent of GDP compared with 3.1 percent envisaged in the 2017 Budget amendment, mainly due to a broad under-execution of capital and current spending as well as higher than expected revenues. The wage bill remained below the program ceiling. Domestic state arrears declined, marginally exceeding the December target by about 0.002 percent of GDP. Priority social spending was below the indicative floor by about 0.03 percent of GDP in December, mainly due to lower than projected number of beneficiaries on account of lower registered unemployment and increased pension payments to cover minimum subsistence levels.

3. **Growth is forecast to remain solid in 2018, while inflation slows.** Growth is expected to remain strong, at around 3¾ percent in 2018. Rising real incomes, continued remittance inflows, previous monetary policy easing, and stronger public investment will support domestic demand, while net trade will remain a drag, partly driven by the appreciation of the leu and weaker agricultural exports. Despite stronger-than-expected growth, inflation is projected to slow sharply. CPI inflation is forecast to reach the lower end of the range around the NBM's target in 2018, as previous shocks to food and regulated prices dissipate, new tariff cuts feed through, and further exchange rate appreciation weighs on domestic prices.

II. Policy Framework

A. Financial Sector Policies: Rehabilitating the Banking Sector

Strengthening bank governance and risk management and decisive cleansing of the banking system remain our overarching goals towards safeguarding macro-financial stability and fostering financial intermediation for stronger and more inclusive growth.

4. We continue to make progress towards cleansing and rehabilitating the banking system. In particular:

i. The transfer of ownership from a non-compliant shareholder in Victoriabank to a strategic investor was a major milestone. The new management has been certified as fit and proper by the NBM. The new majority shareholders are implementing appropriate corporate governance, risk management, and controls that will enable an ensuing lifting of special supervision regime.

ii. Negotiations on the acquisition of the 41.09% percent share in MAIB by an EBRD-led consortium have been concluded, following the adoption of laws to facilitate pre-agreed back-to-back purchase and sale of shares in systemic banks by the Government. Agreement on the terms of the pre-contract for the sale and purchase agreement paves the way for the initiation of the back-to-back purchase and sale transaction.

iii. In MICB, following cancellation of suspended shares, new shares were issued, in line with the provisions of the Article 11^1 of the Law on Capital Markets. These new shares were valued by a reputable international firm and are now exposed for sale on the stock exchange.

iv. NBM's Executive Board adopted decisions on Related Party (RP) Reviews for the three largest banks, ordered these banks to submit time-bound plans for unwinding RP exposures, and the relevant department has accepted those plans.

v. Full-scope onsite inspections have been (a) finalized in the remaining two banks that are not part of the foreign banking groups and (b) undertaken in the banks that are part of foreign banking groups.

vi. Following the on-site inspections, NBM is finalizing RP Reviews in four banks that are not part of the foreign banking groups.

vii. The NBM has finalized the investigations into concerted activities and fitness and probity of shareholders in non-systemic banks. Based on these investigations, the NBM Executive Board decisions are being prepared.

viii. The NBM has instructed all banks to conduct a self-assessment of corporate governance.

5. **The New Banking Law came into force on January 1, 2018.** The Law introduced international standards and is in line with EU CRD IV/CRR Directives on prudential requirements for credit institutions and their supervision. Supporting regulations are already drafted and will be approved in stages, in line with the NBM's time-bound action plan for publication and implementation.

6. **Central Securities Depository (CSD):** We have completed the verification of the legal records of all banks and insurance companies. On March 14, 2018, the NBM Executive Board approved a set of actions to be taken for the establishment of the CSD, after which state registration took place. The CSD is designed to guarantee the safety of securities, ensure the transparency of financial markets, and help develop new financial market instruments. It will facilitate the NBM in achieving its objective of ensuring the shareholders' transparency in the licensed banks.

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

i. **NBM will allow a systemic bank to exit temporary administration in an orderly manner (reset structural benchmark, end-October-2018).** This will entail a private sector solution following the price valuation and exposure of the newly issued shares for sale at the stock exchange. We have a contingency plan in place, should this approach face substantive impediments or delays that would undermine financial stability.

ii. **We will identify the UBOs of all domestic banks.** We will apply legal enforcement actions vis-à-vis concerted shareholders. We will remove unfit shareholders in domestic non-systemic banks before end-March 2019 (**proposed structural benchmark**). To ensure timely removal of unfit shareholders and, in consultation with Fund staff, we will adopt legal amendments to the new shareholder removal model to incentivize effective and timely action **(prior action)**.

Related party reviews. NBM will ensure that credible time-bound action plans are in place for unwinding RP exposures for all domestic banks that are not part of foreign groups before end-July 2018 (**proposed structural benchmark**). We are developing and will issue for consultation with the banks guidelines for RP risk management programs **(structural**

benchmark, end-June 2018). We will publish these guidelines, including policies, procedures, and systems for identification of RPs' operations.

iii. **Operationalizing the new CSD and verification of the integrity of share registration.** The CSD will become fully operational by end-October 2018. Following this, the operationalization of the software platform for government securities will allow the transfer of their registry from NBM to the CSD. Banks and Insurance companies' registries will be transferred to the CSD in October. We have established a Supervisory Board to ensure effective oversight and operations. We will develop a methodology to oversee the transfer of registries.

iv. **Financial safety nets.** We are working to further strengthen our crisis prevention and contingency planning. To this end, we are reviewing our legal and operational frameworks for emergency liquidity assistance, deposit insurance, and bank liquidation, with the intention of adopting reforms by end-year 2018. Designed to complement the Bank Recovery and Resolution Law, these reforms will be developed in consultation with the Fund.

v. **Capital conservation policy.** Our supervisory powers, such as dividend payout restrictions and capital add-ons, will be exercised based on the degree of impact of regulatory capital requirements, such as in the context of transition to Basel III and other risk exposures identified by the NBM.

vi. **Non-bank financial institutions.** In the insurance sector, we will ensure strong governance, transparency, and financial strength of the sector. In collaboration with other international partners, we are also reviewing the regulatory framework with the intention of aligning with European standards in this domain.

B. Monetary and Exchange Rate Policies

8. **We will continue to implement monetary policy within an inflation-targeting framework and a flexible exchange rate regime**. Inflation is expected to slow further in 2018, as the effect of the exchange rate appreciation and price level shocks to food and regulated prices more than offsets the impact from higher growth and previous monetary policy easing. In the near term, monetary policy will remain on hold, looking through first-round effects from transitory changes to food and regulated prices.

9. **We will not resist exchange rate movements driven by fundamentals, intervening in the foreign exchange market only to smooth excessive volatility.** Moldova's vulnerability to external shocks requires having a flexible exchange rate as an efficient shock absorber. We will

engage in two-sided interventions in the foreign exchange market to smooth excessive volatility. The NIR targets set under the program are consistent with this commitment.

10. **Enhancing communication within and outside NBM is essential for efficient policy implementation.** The reduction in the number of monetary policy decisions will be accompanied by a set of broader measures. Priorities include: (i) refining the forecasting process to strengthen outputs and monetary decision-making, (ii) improving coordination across agencies, and (iii) strengthening internal and external communications, including by adhering to a regular calendar of monetary policy decisions.

11. **The efficiency of NBM's inflation targeting framework is conditional upon its institutional and policy independence, which requires, inter alia, a viable balance sheet**. To this end, we commit not to amend the law regulating the securitization of emergency loans extended by NBM to now failed banks. Once the NBM's statutory capital level reaches 10 percent of monetary liabilities, NBM profit transfers to government will be used to repurchase these securities, starting with the longer dated tranches, allowing for a reduction in domestic public debt. We will also use these securities for mopping up bank liquidity via outright sales and reverse repo transactions to address structural excess liquidity.

12. The NBM will consider possible improvements to the liquidity management and reserve remuneration frameworks.

C. Fiscal Policy

13. **Our 2018 fiscal plans are consistent with our commitments under the program**.

i. **Budget amendment.** We will adopt amendments to budget 2018 consistent with the augmented deficit ceiling of 5,681 mil. lei (3.5 percent of GDP) **(prior action)**. The amended budget maintains our focus on investment and priority social spending. Additional spending on road projects of about 303.1 mil. lei will be financed using cash balances from grants received in 2017 that had been expected in 2018.

ii. **Tax and customs reforms.** The revised revenue projections in the amended budget reflect improved macroeconomic conditions, better than expected collection, and sustained dividends from on-going reforms in the Customs and State Tax Services. Tax administration initiatives were taken in January 2018 to further improve revenue collection. These include increasing the information submitted to the State Tax Service (STS) by financial institutions, as well as expanding information sources used to improve compliance and better detect tax fraud. In line with these initiatives, we have amended the Criminal Procedures Code to enable investigation of tax crimes by the STS**.**

iii. **Wages and pensions.** Our public wage bill will be 14,030 million lei, somewhat higher than initially planned, mainly to accommodate (i) legally mandated public salary increases; (ii) increases in medical insurance contributions; (iii) commitments related to donor projects; and (iv) inclusion of seven public sector agencies as budgetary institutions. The amended budget for the Social Fund includes funds to cover pension indexation.

iv. **Domestic arrears.** We remain committed to eliminating audited state arrears and approving legislation to reduce local government arrears that are currently beyond the control of the central government. We aim to improve the monitoring of arrears and prevent their accumulation, including by amending Article 67 of the Law on Public Finances and Fiscal Accountability with immediate effect subject to parliamentary approval during the Spring 2018 session.

14. The budget for 2019 and Medium-Term Budget Framework (MTBF) will be in line with agreed program objectives.

i. We are committed to adopting the MTBF 2019–21 in June 2018 that will preserve Moldova's low risk of public debt distress, while at the same time facilitating growth-enhancing public investment and other high priority spending.

ii. We are planning to adopt the 2019 budget in July in line with revenues, the wage bill, and deficit parameters of the MTBF.

15. To support our medium-term fiscal objectives, we will take measures to strengthen our institutional fiscal frameworks.

i. **Spending Reviews.** We will fully integrate spending reviews into our MTBF and annual budget processes starting with the MTBF 2021–23. To this end, we plan to amend Law no. 181 on Public Finance and Fiscal Responsibility with a provision on spending reviews. We are piloting a spending review in the education sector as a first step to institutionalize the full spending review to better evaluate our spending needs.

ii. **Wages.** We plan to unify the salary system in the budgetary sector as of 2019, to improve workforce management and make government compensation more transparent. We will carefully assess the budgetary impact of the new wage grid prior to its implementation, in consultation with the Fund and benefitting as needed from ILO advice. To accommodate a smooth transition to the new system and prevent fiscal slippages, we stand ready to implement the reform in gradual steps. Our wage bill in 2019 will be 14,947 mil lei, with 246 mil lei designated to facilitate the first phase of the reform.

iii. **Public investment.** To address priority infrastructure needs and promote growth-enhancing investment, we plan to rehabilitate the road network, reform the railway system, and enhance energy security and reliability. To prevent delays and cost overruns, we aim to strengthen our budgetary processes and public investment management, including by integrating capital expenditure in our spending review process.

iv. **Social spending.** We will continue to enhance the targeting and effective coverage of our social assistance programs, Ajutor Social and Heating Allowance, as well as improve employability prospects for vulnerable groups, such as individuals with disabilities.

v. **Tax reform.** We intend to revise the structure of the PIT and social contribution rates in consultation with the Fund to strengthen the sustainability of the national budget and pension system, promote employment, and reduce labor emigration.

vi. **Public debt management.** The development of the domestic government bond market remains one of our debt management objectives for 2018–21. To support this, the Ministry of Finance will seek to enhance its communication with state securities market participants and extend the maturity of state securities.

D. Structural Reforms

16. Greater transparency, predictability, and good governance in the energy sector remain our priority. Preventing legal disputes and enhancing the regulator's independence will support medium-term growth by reducing uncertainty and improving the business environment.

i. In the electricity sector, new tariffs will be fully based on the February 2018 methodology and will also reflect differences in the assessment of financial deviations from April 2017-February 2018 (**proposed structural benchmark**, **end-June 2018**).

ii. In the heating sector, we will support—in consultation with relevant stakeholders—the full implementation of the action plan agreed between ANRE and the WB, including by approving the new tariff-setting methodology and procedures related to asset valuation and depreciation principles; approving a revised methodology for determining heat losses; determining the amount of tariff deviation (accumulated deficit) and of the recovery mechanisms.

iii. We will continue to support collaboration between stakeholders on energy-related issues. Cooperation between the independent energy regulator and relevant stakeholders such as the Energy Community Secretariat, electricity distribution companies and the World Bank proved fruitful in developing the new electricity tariff methodology. We believe such cooperation is vital to ensuring transparency and predictability in the sector.

17. **We will continue to take measures to strengthen economic governance.** We will continue to shrink the shadow economy building on recent progress, reduce regulatory and administrative burdens, and implement judicial reforms. We will make efforts to improve the business environment through more permissive approaches, while ensuring sound financial sector supervision; strong tax, customs, and AML/CFT frameworks; and implementation of Moldova's commitments under the DCFTA and the EU Association agreements.

18. **Recovery of assets.** The final Kroll investigation documents have been transmitted to the Anticorruption Prosecutor's Office, which will serve as basis for asset recovery. The Moldovan investigation bodies remain committed to recover the stolen funds. To that end, the General Prosecutor's Office will publish a high-level asset recovery strategy, setting out a time-bound action plan for the recovery of stolen assets (**prior action**) that will include an outline of responsible agencies and their coordination, as well as reporting requirements, without jeopardizing ongoing recovery efforts.

19. **AML/CFT framework**. The new AML Law was published in the official Gazette in February 2018. Consequently, the AML Agency (SPCSB) has been strengthened as an independent entity under the government with operational capacity. This institutional set-up, together with upcoming regulatory and legislative changes will enable the authorities to better address ML/TF risks. We will amend the legal AML/CFT framework to ensure effective application of proportionate and dissuasive sanctions for AML/CFT violations by banks or other reporting entities in line with FATF standards. We will also issue regulations, such as those on identification of suspicious transactions and activities, on terrorism financing, and on politically exposed persons. Our AML/CFT framework will be assessed by MONEYVAL in October 2018. MoUs on cooperation and exchange of information across all relevant domestic agencies are being concluded.

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

E. Program Monitoring

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

Table 1	QPC
Table 2	Prior actions and structural benchmarks
Table 3	Status of structural benchmarks

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

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

	Dec 2017			Mar 2018		Jun 2018		Sept 2018	Dec 2018	Mar 2019
		Adjusted				EBS/17/130	Revised		Proposed	
	Target	Target 5/	Actual	Target	Actual	Target	Target	Target	Target	Target
1. Quantitative performance criteria [1/]										
Ceiling on the ***augmented*** cash deficit of the general government	5,513	5,308	1,444	1,339	-1,099	3,548	4,290	4,986	5,681	1,985
Of which: on-lending agreements with external creditors to state-owned enterprises	504	504	299	170	32	257	275	309	618	30
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) [2/]	2,131	2,131	2,463	2,368	2,518	2,349	2,431	2,592	2,629	2,752
2. Continuous performance criteria										
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	0	0	0	0	0	0	0
Ceiling on absorption by the government of losses or liabilities and making of payments on behalf of utilities and other companies	0	0	0	0	0	0	0	0	0	0
3. Indicative targets										
Ceiling on the stock of accumulated domestic government arrears [3/]	0	0	3	0	7	0	0	0	0	0
Ceiling on the general government wage bill	12,657	12,657	12,506	3,287	3,282	7,244	7,616	10,935	14,030	3,968
Floor on priority social spending of the general government	17,660	17,660	17,615	4,598	4,461	9,463	9,291	13,985	19,280	4,873
Floor on project spending funded from external sources [4/]	N/A	N/A	N/A	262	98	647	433	1,366	2,963	148
4. Inflation Consultation Bands (in percent)										
Outer Band (upper limit)	9.0	9.0		7.8		5.6	5.2	5.0	5.0	5.8
Inner Band (upper limit)	8.0	8.0		6.8		4.6	4.2	4.0	4.0	4.8
Center point	7.0	7.0	7.3	5.8	4.7	3.6	3.2	3.0	3.0	3.8
Inner Band (lower limit)	6.0	6.0		4.8		2.6	2.2	2.0	2.0	2.8
Outer Band (lower limit)	5.0	5.0		3.8		1.6	1.2	1.0	1.0	1.8

1/ Indicative targets for September 2018 and March 2019.

2/ The NIR target is set as specified in the TMU.

3/ As of January 2017, domestic expenditure arrears exclude local governments.

4/ N/A - target is new for 2018, and thus applicable only going forward.

5/ Adjusted for shortfall between the total amount of actually disbursed and programmed onlending from external creditors to SOEs as per the TMU.

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

	Measure		Timeframe
Prior Actions for Board Consideration of the Review			
1	Adopt amendments to budget 2018 consistent with the augmented deficit ceiling.		
2	The General Prosecutor's Office to publish a high-level asset recovery strategy, setting out a time-bound action plan for the recovery of stolen assets.		
3	Adopt legal amendments to the new shareholder removal model to incentivize effective and timely action.		
Structural Benchmarks 1/			
Financial Sector			
1	NBM to allow a systemic bank to exit temporary administration in an orderly manner.	Modified	End-October 2018
2	NBM to remove unfit shareholders in domestic non-systemic banks.	New	End-March 2019
3	NBM to ensure that credible time-bound action plans are in place for unwinding RP exposures for all domestic banks that are not part of foreign groups.	New	End-July 2018
Energy sector			
4	In the electricity sector, new tariffs will be fully based on the February 2018 methodology and will also reflect differences in the assessment of financial deviations from April 2017-February 2018	New	End-June 2018

1/ Additional structural benchmarks will be set at the time of subsequent program reviews.

Table 3. Moldova: Status of the Structural Benchmarks Under the ECF/EFF

	Measure	Timeframe	Status
Financial Sector			
1	Finalize onsite inspections in:		
	1a) two small domestic banks that are not part of foreign banking group	End-January 2018	Met with delay
	1b) banks that are part of foreign groups	End-May 2018	Not met
2	Finalize investigations into concerted activities, and fitness and probity of shareholders in non-systemic banks	End-March 2018	Met
3	NBM to allow a systemic bank to exit temporary administration in an orderly manner.	End-June 2018	Reset to end-October 2018
4	Adopt a new framework for removing concerted and otherwise unfit shareholders, to streamline the process and address governance issues.	End-April 2018	Met with delay (1)
5	NBM to instruct all banks to conduct self-assessment of corporate governance.	End-August 2018	Met
6	NBM to order the largest three banks to submit time-bound plans for full compliance with NBM executive board decisions on RP improvement.	End-January 2018	Met with delay
7	NBM to develop and issue for consultation with the banks guidelines for RP risk management programs.	End-June 2018	Met
8	NCFM to complete the verification of the legal records of all banks and insurance companies, including through a public awareness campaign.	End-March 2018	Met
9	Government to publish an analytical report prepared by an independent investigator on the 2014 bank fraud, and adopt a strategy with time-bound actions to recover assets.	End-December 2017	Met with delay (2)
Energy sector			
10	Develop approve, and publish a new tariff methodology, in line with the new Energy law, and in agreement with the Energy Community Secretariat, and consulting with other stakeholders, including the World Bank, electricity distribution companies and CSO.	Mid-February 2018	Met with delay

(1) This structural benchmark became a prior action for Board consideration of the Review.

(2) The Government published an analytical report prepared by an independent investigator on the 2014 bank fraud; adoption of a strategy with time-bound actions to recover assets was established as a prior action for Board consideration of the third program review.

Attachment II. Technical Memorandum of Understanding

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

A. Quantitative Program Targets

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

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

Indicative targets are set on:

- the ceiling on the general government wage bill;
- the floor on priority social spending of the general government;
- the ceiling on stock of accumulated domestic government arrears (continuous);
- the floor on project spending funded from external sources, to comply with the Article 15[1] of the Fiscal Responsibility Law, starting in 2017 for the 2018 budget.

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

B. Program Assumptions

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

C. Institutional Definitions

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

D. Program Definitions

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

- For program monitoring purposes, **gross reserves** of the NBM are defined as monetary gold, holdings of SDRs, reserve position in the Fund, and holdings of foreign exchange in convertible currencies that are readily available for intervention in the foreign exchange market or in the securities issued by sovereigns, IFIs and explicitly guaranteed government agencies, with a minimum credit rating for such securities of AA-.[1] Excluded from reserve assets are capital subscriptions to foreign financial institutions, long-term non-financial assets, funds disbursed by international institutions and foreign governments assigned for on-lending and project implementation, assets in non-convertible currencies, NBM's claims on resident banks and nonbanks, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets (futures, forwards, swaps, and options).

- **Reserve liabilities of the NBM** are defined as use of Fund credit by the NBM, convertible currency liabilities of the NBM to nonresidents with an original maturity of up to and including one year, and convertible currency liabilities of the NBM to residents, excluding to the general government and the mandatory FX reserves of domestic banks in the NBM. Liabilities arising

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

from use of Fund credit by the NBM do not include liabilities arising from the use of SDR allocation.

For program monitoring purposes, the stock of reserve assets and reserve liabilities of the NBM shall be valued at program exchange rate, as described in paragraph 3 above. The data source for gross reserves and liabilities is the Monetary Survey published by NBM in Moldovan Lei, from which the adjustments for program purposes are made. On this basis, and consistent with the definition above, the stock of NIR of the NBM amounted to US2,292.6 as of end- September 2017.

6. For the purposes of calculating overall cash deficit and augmented overall cash deficit of the general government, **net domestic credit of the banking system** (NBM and commercial banks) to the general government is defined as outstanding claims of the banking system on the general government (exclusive of the claims associated with accrued interest, tax and social contribution payments by commercial banks, and foreign financed on-lending by banks), including overdrafts, direct credit and holdings of government securities, less deposits of the general government (excluding accrued interest on government deposits, and including the accounts for foreign-financed projects).[2] This definition will also exclude the securities issued under Law 235/2016 on the issuance of government bonds for execution of Ministry of Finance's payment obligations derived from the State Guarantees Number 807 of November 17, 2014 and Number 101 of April 1, 2015.

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

7. The overall cash deficit of the general government is cumulative from the beginning of a calendar year and will be monitored from the financing side at the current exchange rate established by NBM at the date of transaction. Accordingly, the cash deficit is defined, as the sum of net credit of the banking system to the general government (as defined in paragraph 6), the general government's net placement of securities outside the banking system, other net credit from the domestic non-banking sector to the general government, the general government's receipt of disbursements from external debt[3] for direct budgetary support and for project financing minus

[2] 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.

[3] Debt is defined as in footnote 4.

amortization paid, and privatization proceeds stemming from the sale of the general government's assets.

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

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

10. For program monitoring purposes, the definition of **debt** is set forth in point no. 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Decision No. 15688-(14/107) adopted on December 5, 2014).[4] This definition applies also to commitments contracted or guaranteed for which value has not been received, and to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. Excluded from this definition are normal import-related credits, defined as liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion are self-liquidating; they contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities. External debt is defined by the residency of the creditor.

11. For purpose of the program, the **guarantee** of a debt arises from any explicit legal obligation of the general government or the NBM or any other agency acting on behalf of the general government to service such a debt in the event of nonpayment by the recipient (involving payments in cash or in kind), or from any implicit legal or contractual obligation to finance partially or in full any shortfall incurred by the debtor. As a result, onlending from external creditors to SOEs

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

is treated as public guarantee (and hence, for the purpose of the program, is monitored explicitly from above-the-deficit line). On the other hand, onlending from external creditors to the private sector through commercial banks—which are collateralized and of which credit risks from the final borrower are explicitly borne by the commercial banks—are treated as contingent liabilities.

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

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

14. The **priority social spending of the general government** is defined as the sum of essential recurrent expenditures including pension[6] and unemployment insurance payments from the Social Insurance Fund (BASS, 9008/00286), the *Ajutor Social* (social assistance program 9015/00320) and heating allowance (9015/00322) during the cold season from the central government budget, as well as 94 percent of health expenditures from the main fund of the Health Insurance Fund.

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

[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.

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

pensions, energy payments and goods and services. For the purpose of calculating domestic expenditure arrears under the program, local government arrears are excluded.

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

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

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

16. Absorption of losses or liabilities by the government and making of payments on behalf of utilities and other companies. The program sets a continuous ceiling of zero on absorption by the public sector of losses or liabilities from outside the budgetary sector. Absorption of losses or liabilities is defined as direct payment by the government of the losses or liabilities of other parties or coverage of losses or liabilities by other transactions, such as accumulated stock of the financial deviation of the utility companies, debt-for-equity swaps or a write-off of tax obligations or other state claims.

E. Inflation Consultation Mechanism

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

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

Inflation Consultation Bands

	2018			2019
	Jun	Sep	Dec	Mar
Outer Band (upper limit)	5.2	5.0	5.0	5.8
Inner Band (upper limit)	4.2	4.0	4.0	4.8
Center point	**3.2**	**3.0**	**3.0**	**3.8**
Inner Band (lower limit)	2.2	2.0	2.0	2.8
Outer Band (lower limit)	1.2	1.0	1.0	1.8

F. Adjusters

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

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

20. The **ceiling on the augmented overall cash deficit** of the general government will be adjusted upward—that is, the deficit target will be increased—by the amount of any shortfall between the total amount of actually disbursed and programmed budget support from external donors, including MFA (grants and loans) from the European Commission. The upward adjustments for 2018 is capped at the equivalent of MDL 596 million and MDL 894 million, respectively for grants and loans, valued at the program exchange rates.

21. The **ceiling on the augmented overall cash deficit** of the general government will be adjusted downward—that is, the augmented deficit target will be tightened—by the amount of any shortfall between the total amount of actually disbursed and programmed on-lending from external creditors to SOEs.[7] The latter is specified in the text table below.

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

Programmed Onlending to SOEs and Adjustments to Augmented Fiscal Deficit

	2018 - Cumulative				2019
	Q1	Q2	Q3	Q4	Q1
Onlending to SOEs (programmed amount, millions of U.S. dollars)	1.9	16.3	18.3	36.7	1.8
Maximum downward adjustment on the augmented overall cash deficit (millions of Moldovan lei) 1/ 2/	32.0	274.9	308.5	618.1	30.4

1/ The adjustments for the year 2018 is evaluated at the exchange rate: 16.83 MDL/USD (the forecast of the Ministry of Economy).
2/ The adjustments for the year 2019 are evaluated at the exchange rate: 16.99 MDL/USD (the forecast of the Ministry of Economy).

22. The floor on **NIR of the NBM** will be lowered by any shortfall in the official external grants and loans capped at the equivalent of US$30 million and US$45 million respectively, valued at the program exchange rates. NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in IMF budget support purchases relative to the baseline projection reported in Table 3.

G. Reporting Requirements

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
Number of budgetary sector positions and employees at the level of budgets (state budget, local budgets, Social Insurance Fund and Health Insurance Fund) and functional groups	Monthly, within four weeks of the end of each month
Social expenditure including pension and unemployment payments from the Social Insurance Fund, the *Ajutor Social* (social assistance program) and heating allowance for the cold season from the central government budget, and health expenditures from the main fund of the Health Insurance Fund	Monthly, within three weeks of the end of each month
Domestic debt	Monthly, within three weeks of the end of each month
Domestic arrears	Monthly, within three weeks of the end of each month
Onlending to SOEs by type of onlending projects and external creditors (including loan disbursements and repayments)	Monthly, within three weeks of the end of each month
Onlending via commercial banks by type of onlending projects and external creditors (including loan disbursements and repayments)	Monthly, within three weeks of the end of each month
Monetary data (to be provided by the NBM)	Weekly, within one week of the end of each week
Monetary survey of the NBM	
Monetary survey for the whole banking system	Weekly, within two weeks of the end of each week
Net claims on general government (NBM and commercial banks)	Weekly, within two weeks of the end of each week
Financial position of commercial banks, including balance sheets, income statement, banking regulation indicators, capital, liquidity, data on credits and deposits (from NBM's Banking Supervision)	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
Interbank transactions (volumes, average rates)	Weekly, within one week of the end of each week
Balance of Payments (to be provided by the NBM)	One quarter after the end of the previous quarter
Current, capital, and financial account data.	
Transfers of individuals from abroad through the banking system	Monthly, within six weeks of the end of each month
External debt data (to be provided by MoF and NBM)	
Information on all new external loans contracted by the general government or guaranteed by the government.	Monthly, within three weeks of the end of each month
Total public and publicly guaranteed private sector outstanding debt, debt service due, and debt service paid, by creditor	Quarterly, within three weeks of the end of each quarter
Disbursements of grants and loans by recipient sector (state/local/SOEs), and by creditor	State: Monthly, within three weeks of the end of each month Other: Quarterly, within three weeks of the end of each quarter
Other data (to be provided by NBS)	
Overall consumer price index.	Monthly, within two weeks of the end of each month
National accounts by sector of production, in nominal and real terms.	Quarterly, within three months of the end of each quarter
Export and import data on value, volume, and unit values, by major categories and countries.	Monthly, within two months of the end of each month

Statement by the IMF Staff Representative
June 29, 2018

This statement provides information that has become available since the issuance of the staff report on June 15, 2018. These developments do not affect the thrust of the staff appraisal.

1. All three prior actions for this review have been completed. In addition to the actions reported as having been completed in the staff report (EBS/18/55), related to the 2018 budget amendment and a high-level asset recovery strategy, on June 15, 2018, the Moldovan Parliament approved legal amendments to the new shareholder removal model, thereby completing the last of the three prior actions.

2. An agreement on the sale of "problem" shares in MAIB was signed, as expected. On June 20, 2018, the EBRD Board of Directors approved its participation in an auction for the acquisition of a 41.09 percent stake in MAIB. On June 22, 2018, a pre-contract was signed between the Government of Moldova and the EBRD-led consortium of investors for the purchase of these shares, paving the way to conclude the transaction, which is expected in late summer.

3. The National Bureau of Statistics (NBS) released 2018 Q1 GDP data, along with revised historical national accounts data. In line with expectations, real GDP growth slowed to 3.7 percent year-on-year in 2018Q1, while domestic demand and household consumption remain robust. The NBS also revised upwards the level of both nominal and real GDP by about 17 percent in 2016–17. These revisions result from the introduction of a new methodology that implements: a) the UN's 2008 System of National Accounts (2008 SNA) and the 2010 European System of Accounts (ESA 2010); and b) statistical improvements on data gathering and compilation methods. The revisions were undertaken in collaboration with Fund technical assistance. New information and further revisions are expected in coming months as the NBS proceeds to fully implement the new methodology. Fund staff are in close contact with the NBS and will provide additional information in the context of the next review.

Statement by Anthony De Lannoy, Executive Director for the Republic of Moldova
June 29, 2018

Economic stabilization in Moldova has continued since the 2015 recession. Economic growth was robust in the last two years, and the growth momentum is expected to be maintained during 2018 and 2019, supported by increasing consumption and investment. Despite being an election year, the authorities are committed to fiscal discipline. The authorities' broad reform agenda, supported by the ECF /EFF arrangement, continues to focus on maintaining macroeconomic and financial stability, and promoting structural reforms to unlock the potential for private sector growth and job creation. The program is successfully being implemented, in particular with regard to the clean-up of the banking sector, and enjoys broad ownership and political support.

Economic performance in 2017 was robust. Financial sector consolidation, lower interest rates, as well as strong domestic demand and a favorable external environment, propelled growth to 4.5 percent in 2017. Exports were supported by strong agricultural production and increased manufacturing exports to the EU, reflecting the impact of new foreign direct investments. Imports growth, however, outpaced exports, which widened the current account deficit. The budget outcome was well within program targets and public debt is estimated to have decreased to 37 percent of GDP, from 41.9 percent in 2016.

Economic growth is expected to remain strong in 2018 and beyond. The authorities now project real GDP growth of 3.8 percent in 2018, compared to 3 percent at the time of the second review. While private consumption is expected to remain the main driver of growth, the ongoing recovery in capital spending, higher exports to the EU, new free trade agreements, and additional foreign direct investment, will further support growth. With external competitiveness improving, the current account deficit, will gradually decline over the next five years. Inflation continued its downward path from 7.3 percent at end- 2017 to about 3 percent in May 2018 and is projected to return to target in 2019. Monetary policy will continue to focus on maintaining price stability in the context of a flexible exchange rate. Gross reserves increased substantially, reaching 2,9 billion US dollars in April 2018, equal to 5.2 months import coverage.

With improved fiscal performance, program objectives will anchor future budget plans. Better fiscal compliance and buoyant foreign trade led to a double-digit nominal year-to-year increase in fiscal revenues in 2017. This, together with spending delays, reduced the fiscal deficit to 1 percent of GDP in 2017, well below the projected 3.2 percent. The recently approved amendments to the 2018 budget incorporate higher than planned fiscal revenues generated largely by higher growth and better compliance. These additional fiscal resources will be channeled to investment (mostly in infrastructure) and priority social spending. The amendments are consistent with the program augmented deficit ceiling of 3.5 percent, which was revised slightly to reflect changes in the timing of external grant disbursements.

Going forward, annual budgets will aim at preserving fiscal sustainability and focusing on growth-friendly spending. They will remain consistent with the parameters of the Medium-Term Budget framework (2019-21), which will be based on realistic revenue assumptions and the progressive tax system. Following the publication of the first Fiscal Risk Statement at end-2017, the authorities will continue their efforts aimed at enhancing the fiscal framework, including through undertaking spending reviews, unifying the salary system in the public sector, strengthening public investment management, modifying the structure of PIT and social contribution rates, and further developing the domestic government bond market. Special efforts will be directed to the development of the Single Account module within the Single Taxpayer Account system, advancing with the online service for paying taxes and fees by individuals.

While the banking sector remains stable, financial intermediation is still subdued. The banking system reports strong prudential indicators. Significant capital reserves, in part thanks to the strict dividend policy, give the banks a comfortable cushion to absorb potential losses and transitioning to a new system of risk capturing (Basel III). The capital adequacy ratio stands solidly above 30 percent (compared to the prudential requirement of 16 percent). The quality of bank assets is improving, reflecting the measures taken by banks in order to reduce non-performing loans. Liquidity in the system remains very high (about 57 percent as end of March 2018) and is still growing due to an increased level of deposits, and a double-digit increase in remittances and export inflows. Despite these benign developments and the favorable monetary conditions – with the gradual reduction of the NBM's policy rate from 9 to 6.5 percent – credit to the economy remained subdued. Although the lending activity became somewhat more dynamic in 2017-2018, with newly issued loans increasing from month to month since mid-2017 and the total loan portfolio increasing since March 2018 y-o-y for the first time since the recession, it is still not sufficient to recover the banks' intermediation role.

The authorities acknowledge the importance of a well-functioning banking sector, with high-quality shareholders, in fostering financial intermediation. Considerable progress has been made towards securing shareholder transparency in the banking sector. The transfer of ownership from a non-compliant shareholder in the third largest bank to a strategic investor (Banca Transilvania, Romania) in January 2018 was the first significant break-through. Moreover, the transaction of acquisition by a consortium of three reputable foreign investors of 41.09 percent of problem shares in the largest bank is materializing: the National Bank of Moldova (NBM) issued the purchase permission, the EBRD and co-investors have obtained the necessary internal approvals, and the Government has approved the transaction and signed a pre-contract with investors on June 22, 2018. Furthermore, the implementation of the sale of a 64 percent share in the second largest bank was started, as the newly issued shares have been put up for sale on the Stock Exchange and are actively promoted to potential buyers. The authorities also progressed with streamlining the shareholder removal process. Recent revisions by Parliament to the law on shareholder removal will improve the environment to expedite this process so that unfit shareholders are removed from the entire banking system within a clearly determined period. In addition, the NBM is finalizing the on-site inspections and related party exposure controls of all banks and will continue the work on bringing the related party exposures into compliance with prudential limits while further strengthening the governance and risk management frameworks.

Further enhancing the banking legal framework is a priority for the NBM. The new Law on banking activity became effective on January 1, 2018, transposing the Basel III principles and being in line with the EU CRD IV/CRR Directives on prudential requirement for credit institutions and their supervision. A package of by-laws to support the implementation of the law has been approved by the NBM. Moreover, in line with the approved provisions, banks developed and implemented their individual strategies for transition to Basel III principles. Following the implementation of the methodology for verification of the integrity of legal records of shareholders to be channeled to the Central Security Depository (CSD), rules on the transfer of the data to the CSD will be developed. The operationalization of CSD, envisaged for end-October 2018, will enhance the transparency of the financial market, including in banks and other public interest entities, and will help develop new financial instruments.

The investigation and asset recovery strategy from the bank fraud continues. Following the completion of the investigation by an international consortium, which provided a full tracing analysis of the embezzled assets, the general Prosecutor's Office published on June 13, 2018 its recovery strategy. The strategy sets out the way forward to recovery the stolen assets, modalities related to civil and criminal cases with application in the country and foreign jurisdictions, as well as a time-bound action plan.
MDL 1.14 billion of stolen assets have been recovered up to date from the failed banks and the authorities are committed to expedite their efforts in this regard. The amounts of recovered assets are reported monthly on the website of the Ministry of Finance.

Despite these important positive developments, challenges remain. While substantial progress has been achieved with the implementation of the structural reform agenda, the authorities are committed to continue advancing structural reforms to promote sustainable and inclusive growth. They aim at further improving the overall business climate – including through stronger customs and AML /CTF frameworks – attracting investment, and enhancing competitiveness and the country's growth potential. Building on recent progress, the authorities will focus on further reducing the shadow economy. A new strategy "Moldova 2030" is under discussion, which will contain several priorities for the economy, regional and rural infrastructure and development, but also in education, health, and social protection, which will support the build-up and retention of human capital.