INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/208

REPUBLIC OF MOLDOVA

July 2024

FIFTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOLDOVA

In the context of the Fifth Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements, First Review Under the Arrangement Under the Resilience and Sustainability Facility, and Request for Modification of a Performance Criterion, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 28, 2024, following discussions that ended on May 24, with the officials of the Republic of Moldova on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on June 13, 2024.
- A **World Bank Assessment Letter for the Resilience and Sustainability Facility**.
- A **Statement by the Executive Director** for the Republic of Moldova.

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

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PR 24/255

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

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed on June 28, 2024, the fifth review under the Extended Credit Facility/Extended Fund Facility (ECF/EFF), and the first review under Resilience and Sustainability Facility (RSF) with Moldova, allowing for an immediate disbursement totaling about SDR 133 million (about $175.2 million).
- The recovery of the economy from the multiple shocks has been slower than anticipated, with growth lower than expected in 2023 and more subdued in 2024. Inflation has remained within the National Bank of Moldova's target band since last October. While risks remain large and to the downside, relatively robust medium-term growth is projected.
- The authorities' continued focus on contingency planning, while maintaining agile policies, has helped contain the impact of recent shocks. Going forward, ongoing efforts to undertake growth-friendly reforms, strengthen energy security, and promote climate-resilient investments, while pursuing the path toward EU accession, will support Moldova's development objectives.

Washington, DC – June 28, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the fifth review under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF)[1], and the first review under the Resilience and Sustainability Facility (RSF)[2], for the Republic of Moldova. This allows for immediate disbursement of SDR 133 million (about $175.2 million) under both programs, usable for budget support. This brings Moldova's total disbursements under the ongoing program arrangements to about $636.5 million.

Growth has been weaker than anticipated owing to the persistent impact of spillovers from Russia's war in Ukraine. The economy grew by 0.7 percent in 2023, and the recovery is expected to continue, although at a weaker-than-previously-projected pace. Fiscal policy has remained focused on protecting the most vulnerable and supporting the economy. While relatively robust growth is projected in the medium term, short-term risks remain large and

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

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

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tilted to the downside. Program performance remains broadly on track despite the challenging environment. The authorities should maintain strong reform momentum, critical to support Moldova's prosperity.

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

Moldova's performance under the ECF/EFF Arrangements remains broadly on track, although with some delays on structural reforms. While the economic recovery from the multiple shocks has been slower than anticipated, with growth lower in 2023 and more subdued in 2024, inflation has remained within the NBM's target band since last October and relatively robust medium-term growth is projected. Given that risks remain large and to the downside, the authorities should continue to focus on strengthening contingency planning and maintaining agile policies, strengthening energy security, and fostering growth-friendly reforms, which will be supported by the EU accession process.

Fiscal policy should remain focused on protecting the most vulnerable and on supporting the economy. At the same time, maintaining a gradual fiscal consolidation is needed to build buffers and preserve debt sustainability, especially given the expected decline in external grants over the medium term.

With inflationary pressures contained, monetary policy should pursue a gradual normalization of still-high reserve requirements, which will support domestic demand. Given the uncertain environment, the base rate should be maintained at the current level. The authorities' commitment to maintain the current prudential requirements on share ownership in the banking sector is welcome and important to safeguard macro-financial stability.

Additional reforms are needed to strengthen the governance, autonomy, transparency, and accountability of the NBM. The authorities should continue working closely with staff to implement the measures identified through the recent diagnostic of the NBM in a timely manner. These reforms are essential to ensure monetary policy credibility and macro-financial stability.

Continued progress on anti-corruption reforms is needed to further increase trust in Moldova's institutions and foster socio-economic development. Adoption of the law establishing a new Anti-Corruption Court, expected this summer, would be a key welcomed development, and the authorities should operationalize the Court quickly and effectively.

Performance under the Resilience and Sustainability Facility has been positive, with welcome implementation of all reform measures for the first review. The authorities should maintain this strong reform momentum, which is critical to build Moldova's resilience to climate change.

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real Sector Indicators											
Gross domestic product											
Real growth rate	3.6	-8.3	13.9	-5.0	0.7	2.6	3.7	4.4	5.0	5.0	5.0
Demand	4.1	-7.5	16.6	-5.1	0.1	3.9	4.4	4.9	5.0	5.0	5.2
Consumption	3.7	-7.9	14.8	-1.4	0.5	3.3	4.0	4.4	4.5	4.5	4.7
Private	-0.9	2.9	17.4	-3.3	-0.5	2.7	3.5	4.2	4.3	4.3	4.5
Public	47.6	16.1	3.0	7.5	6.0	6.0	6.4	5.5	5.5	5.5	5.5
Gross fixed capital formation	12.0	5.6	1.9	-6.4	-1.6	5.8	6.2	6.9	6.7	6.8	7.3

Net Exports of goods and services	-3.8	2.8	-25.6	5.3	1.9	-9.3	-7.7	-7.1	-4.7	-4.7	-6.1
Exports of goods and services	8.2	-14.9	17.5	26.8	5.1	3.7	5.4	6.8	8.2	8.8	8.3
Imports of goods and services	6.2	-9.5	21.2	11.7	2.2	6.0	6.4	7.0	6.8	7.2	7.5
Nominal GDP (billions of Moldovan lei)	206.3	199.7	242.1	275.6	300.4	329.1	360.0	396.6	439.4	486.9	539.5
Nominal GDP (billions of U.S. dollars)	11.7	11.5	13.7	14.6	16.6	18.1	19.6	21.5	23.7	26.2	28.8
Consumer price index (average)	4.8	3.8	5.1	28.6	13.4	5.0	5.0	5.0	5.0	5.0	5.0
Consumer price index (end of period)	7.5	0.4	13.9	30.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	5.3	5.6	6.4	19.8	8.3	6.8	5.5	5.5	5.5	5.5	5.5
Average monthly wage (Moldovan lei)	7,356	8,104	8,619	9,328	10,650	11,475	12,475	13,675	13,675	13,675	13,675
Average monthly wage (U.S. dollars)	419	468	488	493	588	630	681	742	738	734	730
Unemployment rate (annual average, percent)	5.1	3.8	3.3	4.6	4.5	3.5	3.5	3.5	3.5	3.5	3.5
Saving-Investment Balance											
Foreign saving	9.5	7.8	12.4	17.2	11.9	11.2	10.7	10.0	9.7	9.3	8.5
National saving	15.6	14.9	13.3	7.4	11.8	11.6	12.0	12.8	13.3	13.8	14.5
Private	13.4	16.2	12.8	6.8	12.0	13.2	12.3	12.5	12.5	12.3	12.8
Public	2.2	-1.3	0.6	0.6	-0.2	-1.5	-0.3	0.3	0.9	1.5	1.7
Gross investment	25.1	22.7	25.8	24.6	23.7	22.9	22.8	22.8	23.0	23.1	23.0
Private	21.5	19.2	22.4	20.9	19.9	19.5	19.3	19.2	19.1	19.0	18.9
Public	3.6	3.5	3.3	3.7	3.8	3.3	3.4	3.7	3.9	4.0	4.1
Fiscal Indicators (General Government)											
Primary balance	-0.8	-4.7	-2.0	-2.3	-4.4	-4.0	-2.9	-2.8	-2.5	-2.0	-1.8
Overall balance	-1.5	-5.3	-2.6	-5.1	-5.2	-5.0	-3.8	-3.4	-3.1	-2.6	-2.4
Stock of public and publicly guaranteed debt	28.1	35.6	34.6	36.4	36.6	38.6	38.0	37.1	35.9	33.2	30.4
Financial Indicators											
Broad money (M3)	8.2	19.6	11.3	5.2	18.4	18.0	13.6	13.3	...	...	...
Velocity (GDP/end-period M3; ratio)	2.3	1.9	2.0	2.2	2.1	1.9	1.9	1.8	...	...	...
Reserve money	7.6	18.8	3.4	30.3	9.9	21.9	...	...	...	...	...
Credit to the economy	11.5	10.3	21.0	8.9	2.8	8.2	13.3	11.8	...	...	...
Credit to the economy, percent of GDP	21.4	24.4	24.4	23.3	22.0	21.7	22.5	22.9	...	...	...
External Sector Indicators 2/											
Current account balance	-1117	-901	-1699	-2498	-1974	-2026	-2107	-2150	-2296	-2426	-2448
Current account balance (percent of GDP)	-9.5	-7.8	-12.4	-17.2	-11.9	-11.2	-10.7	-10.0	-9.7	-9.3	-8.5
Remittances and compensation of employees (net)	1,729	1,669	1,826	1,519	1,561	1,693	1,862	2,048	2,253	2,478	2,726
Gross official reserves 3/	3,060	3,784	3,902	4,474	5,453	6,009	6,000	6,075	6,253	6,689	7,364
Gross official reserves (months of imports)	6.2	5.7	4.6	5.4	6.4	6.6	6.1	5.7	5.3	5.2	5.3
Exchange rate (Moldovan lei per USD, period average)	17.6	17.3	17.7	18.9	18.1	18.2	18.3	18.4	18.5	18.6	18.7
Exchange rate (Moldovan lei per USD, end of period)	17.2	17.2	17.7	19.2	17.4	18.6	18.7	18.8	18.9	19.0	18.6
Real effective exch.rate (average, percent change)	2.1	5.1	-1.6	11.3	6.2	-7.0	2.1	2.4	2.4	2.4	2.4
External debt (percent of GDP) 4/	61.9	70.0	63.3	66.2	62.2	65.3	67.6	68.3	67.2	65.4	63.0
Debt service (percent of exports of goods and services)	13.4	15.8	11.9	8.8	11.1	12.9	13.3	14.3	13.1	11.1	9.8

Sources: Moldovan authorities; and IMF staff estimates.
1/ Data exclude Transnistria.
2/ Balance of Payments (BOP) classification is revised in line with the Sixth Balance of Payments Manual (BPM6). Review columns reflect BOP according to BPM5 classification.
3/ Includes SDR allocation in 2021 (about US$236 million).
4/ Includes private and public and publicly guaranteed debt.
Note: 2014-2020 GDP data recently revised by the Moldovan National Bureau of Statics, following an IMF TA.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

June 13, 2024

FIFTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Context. Moldova's economic recovery from the multiple shocks is proceeding, albeit at a slower pace than expected. Progress towards EU accession continues. Presidential elections are scheduled in October, to be combined with a referendum on EU accession.

Recent developments and risks. Growth was 0.7 percent in 2023, weaker than the last projection of 2 percent. Recovery in 2024 is also expected to be more subdued than previously expected, owing to weaker-than-anticipated growth in main trading partners and a more gradual rebound of domestic demand. Relatively robust medium-term growth is projected, as confidence and trade partners recover and progress on reforms for EU accession and ECF/EFF and RSF related reforms accelerate. Risks remain large and to the downside, including due to uncertainty related to the war, possible renewed energy shocks, and potential policy reversals in the context of the coming elections.

Policies. Robust reforms, growth-focused, and climate-supportive investments, and improved access to diversified energy sources are essential.

- Fiscal policies continue to prioritize better-targeted social assistance, energy security, support for businesses, and growth-enhancing investments. A supplementary 2024 budget is expected to reflect weaker revenues, with overall spending broadly unchanged. Medium-term fiscal policies should continue to balance development needs with gradual consolidation.

- Monetary policy should remain data-driven and forward-looking, given the uncertain environment. Maintaining a strong supervisory and regulatory framework and strengthening AML/CFT frameworks, are key. Following dismissal of the former National Bank of Moldova (NBM) governor last December, new agreed actions will strengthen NBM autonomy and governance, and thereby, sound monetary and financial policies.

- Renewed reform momentum on governance and anti-corruption, the SOE sector, and the labor market will foster trust in public institutions and improve the business environment, reduce fiscal risks, and support EU convergence.

ECF/EFF. Performance under the ECF/EFF remains broadly on track, although with some delays on structural reforms. The end-December structural benchmark (SB) on presentation to Parliament of amendments to strengthen NBM independence and governance was not met (but was completed as a prior action for the review). The end-March 2024 SB on the adoption of an anti-corruption adjudication infrastructure law was not met and is being reset for end-September. Policy commitments have been added to further strengthen central bank independence, governance, transparency and accountability; strengthen and modernize tax audits; enhance the independence of the Anti-Corruption Prosecutors office; and upgrade the fiscal accounts to the GFSM2014. Staff agrees with the authorities' request for modification of the ceiling on the cash deficit of the general government at the end of December 2024, to reflect the lower-than-budgeted revenue projections resulting from the weaker growth and external outlook.

RSF. The RSF is also on track. All reform measures for the completion of this review were completed. Work is also ongoing to prepare the measures for the next review.

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

Discussions were held in person and remotely during April 22–May 24, 2024. The mission met with Prime Minister Recean, Deputy Prime Minister and Minister of Economy Alaiba, Minister of Finance Rotaru, Minister of Energy Parlicov, Minister of Justice Mihailov-Moraru, Minister of Labor and Social Protection Buzu, Minister of Infrastructure and Regional Development Spînu, National Bank Governor Dragu, Chair of the National Commission for Financial Markets Budianschi, General Director of the Public Property Agency Cojuhari, and other senior officials and representatives of financial institutions, international organizations, the private sector, and development partners. The mission team comprised C. Mira (head), A. Fouejieu, P. Engler (all EUR), C. Gomez Osorio (FAD), M. Markevych (LEG), A. Grohovsky (SPR), S. Sola (MCM), and S. Cerović (resident representative). M. Horton (EUR) joined part of the mission. K. Funke (FAD) supported the climate-related agenda. L. Dresse and V. Volociuc (OED) participated in the meetings. Y. Zha and B. Plein (both EUR), and O. Scerbatchi, V. Buicli, and N. Culava, from the IMF office in Chişinău, assisted the mission.

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CONTEXT

1. Moldova's economic recovery from multiple crises is proceeding, albeit gradually, while progress towards EU accession continues. Spillovers from the war in neighboring Ukraine continue to result in elevated uncertainty, affecting confidence and domestic demand. The EU agreed to open accession negotiations in December 2023, and in March 2024, the European Council welcomed progress in advancing on the necessary reforms and invited the Council of the EU to swiftly adopt the negotiating frameworks. Moldova prepared its first Economic Reform Programme 2024–2026.[1] In May 2024, representatives of the EU Member States, the candidate countries and potential candidates, the European Commission and the European Central Bank, as well as representatives of the central banks of the candidate countries and potential candidates, held an annual economic policy dialogue and provided joint policy guidance to Moldova.[2] The screening process for Moldovan legislation with the EU *acquis communautaire* is ongoing.

2. The political landscape is dominated by presidential elections on October 20. President Sandu from the ruling pro-EU Party for Action and Solidarity (PAS) is running for reelection. The elections will be combined with a referendum on EU accession. While PAS continues to steer reforms with support from international partners, the elections will take place amidst concerns over slow growth, geopolitical tensions (including in the Transnistria region), and a divided public opinion over the future direction of the country. Parliamentary elections are planned in 2025.

3. The abrupt dismissal of former NBM Governor Armaşu in December by Parliament raised concerns about due process and commitment to central bank independence and consultation under the program. An IMF staff team visited Chişinău in March to assess the authorities' commitment to the program and identify actions to strengthen NBM autonomy and governance, and thereby, sound monetary and financial sector policies.

RECENT DEVELOPMENTS

4. Moldova has experienced a slower-than-expected recovery from the contraction in 2022. Growth was 0.7 percent in 2023 (first estimate), below staff's 2 percent forecast at time of the fourth review.[3] This was due primarily to weaker-than-expected recovery of private consumption and investment. Growth was supported by an improved trade balance, driven by weaker imports of goods and services, and a recovery of agriculture from a 2022 drought, although more limited than expected, due to higher production costs and lower sale prices. The unemployment rate increased to 4.9 percent in 2023Q4. High-frequency indicators point to a rebound in Q1:2024; industrial production grew by 12.5 percent, driven by the manufacturing sector, and aggregate retail trade

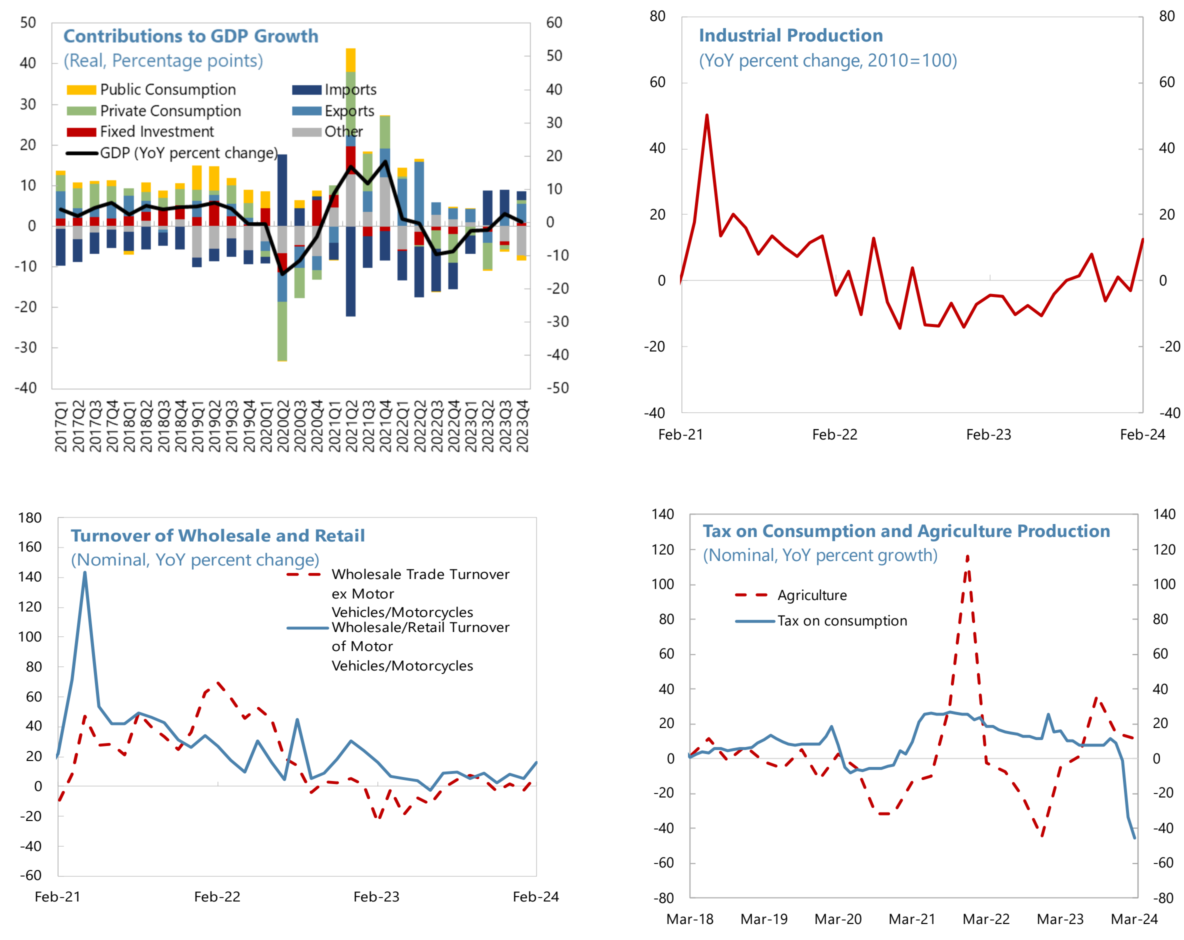
[1] The ERPs contains the macro-fiscal framework, while information on structural challenges and reform plans were optional.

[2] https://data.consilium.europa.eu/doc/document/ST-9881-2024-INIT/en/pdf

[3] CR 2023/428.

grew by 16.2 percent in February (y/y). Agricultural production retained strong growth of 11.6 percent in March (y/y). While real exports contracted by 11.5 percent in February (y/y), real imports growth turned positive (at 0.8 percent, y/y) after negative growth since April 2023.

Real GDP Growth and High-Frequency Indicators

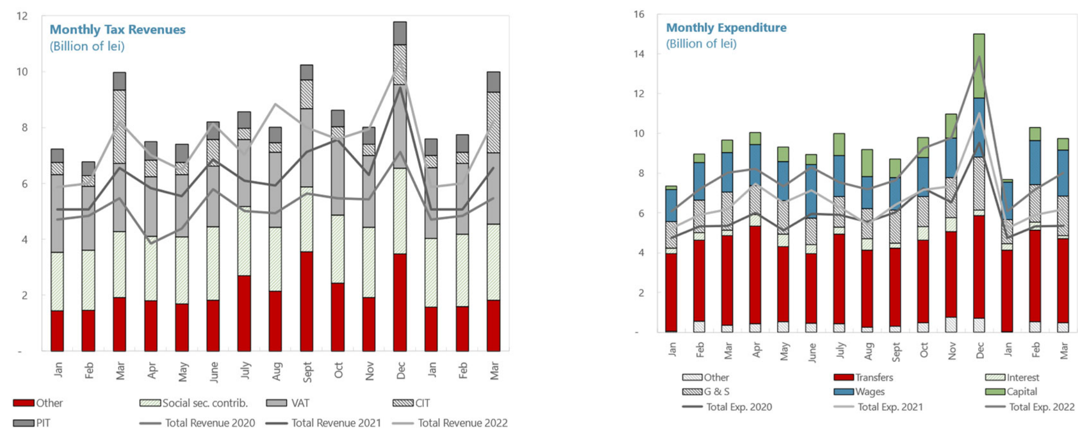


Sources: NBS and IMF staff calculations.

5. **The overall fiscal deficit reached 5.2 percent of GDP in 2023, in line with estimates at the fourth review and below the originally budgeted 6 percent.** Lower-than-expected collections of VAT on imports, coupled with a disinflationary effect on domestic VAT, were partially offset by robust CIT collections, as fewer companies utilized tax benefits on undistributed dividends. Expenditure was largely driven by current spending and better-targeted transfers to households, wages, and procurement of natural gas for the winter season. In an October supplementary budget, 25 percent savings of the Energy Vulnerability Recovery Fund (EVRF) program, resulting from lower-than-expected international prices, were reallocated to the Road Fund and wages (with a 15 percent increase for medical staff and a one-time bonus for teachers and police). Public investment closed the year at 4 percent of GDP, showing a modest improvement in execution, though still with skewed disbursement towards Q4, reflective of efforts to accelerate project implementation at the central government level. Financing—donor support and domestic t-bills—was in line with expectations

(Table 1). 2023 ended with MDL 2.25 bn (0.8 percent of GDP) in cash buffers, resulting from a combination of strong external support and a one-off repayment (MDL 1 bn) from recapitalization of Energocom to procure gas in 2022. External financing so far in 2024 experienced some modest delays; the authorities managed by frontloading issuance of domestic securities.

Monthly Tax Revenues and Expenditures

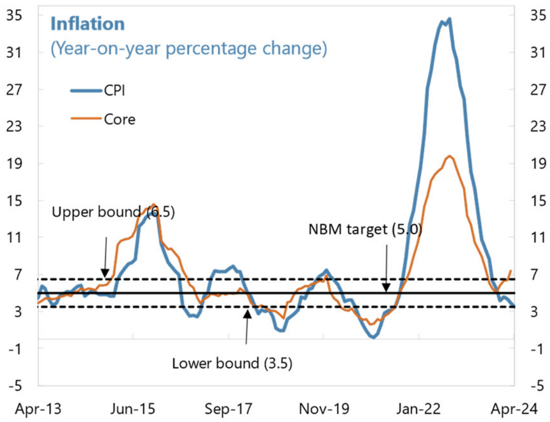


Source: Ministry of Finance.

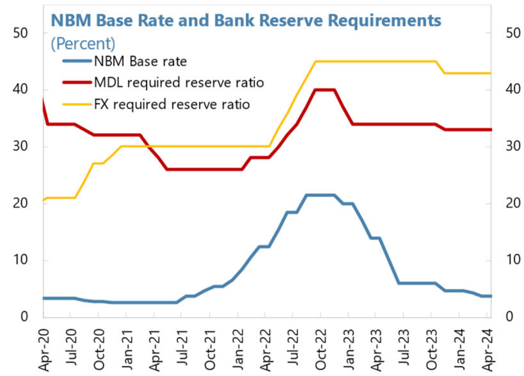
6. At the time of the fourth review, the debt sustainability analysis found public debt to be sustainable, with current debt-carrying capacity assessed as strong. The risk of external debt distress was assessed to be low, and the overall risk of debt distress assessed to be moderate. This assessment is unchanged at this review. Adherence to the program's deficit targets, continued external support from official partners on concessional terms, a stronger exchange rate, lower total external debt for 2023 than projected, and falling domestic borrowing costs continue to help debt dynamics, despite the lower growth outturn.

7. Inflation has remained within the NBM's target band in past months, while monetary policy has continued to ease. Headline inflation stood at 3.5 percent in April, reaching the lower bound of the NBM's target corridor of 5±1.5 percent. Inflation has been within the NBM target band since October 2023. Lower inflation in recent months was supported by a decline in food and regulated prices. However, core inflation increased to 7.8 percent in April, from 5 percent in November 2023, driven partly by the transitory impact of higher taxation on prices of some items (e.g., cigarettes, vehicles, tourism services). In May, the NBM decided to lower reserve requirements gradually by two consecutive reductions of 2 ppts, bringing MDL and FX RRs from 33 percent and 43 percent, respectively, to 29 percent and 39 percent by July. It also lowered its base rate by a further 0.15 ppt, bringing it to 3.6 percent—in part motivated by financial considerations (to lower NBM costs). The leu appreciated by about 2 percent through early March compared to end-2023. Gross reserves remain strong, at about $5.4 billion as of mid-March, about 6 months of imports.

Inflation and Monetary Policy Conditions



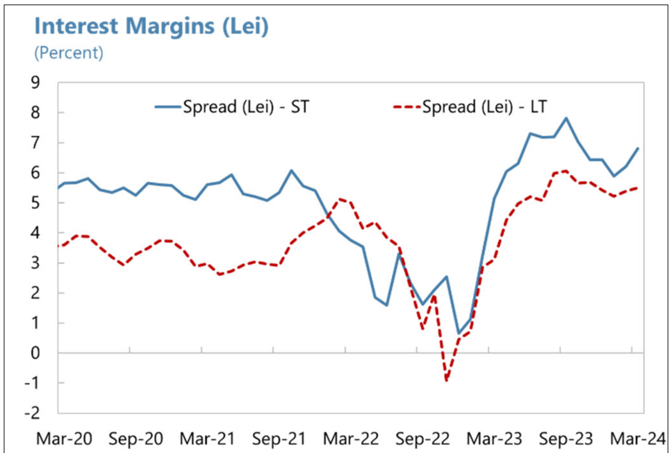
Sources: NBS and IMF staff calculations.



Source: National Bank of Moldova.

8. The external current account posted a deficit of 11.9 percent of GDP in 2023, improving significantly over the 17.2 percent of GDP deficit in 2022. A decline in merchandise exports (reflecting gradual normalization following the sharp increase in 2022 due to re-exports of goods transiting through Moldova) was more than compensated by a significant decline in imports. The income balances also improved, further helping to lower the current account deficit. The deficit is expected to narrow further in 2024, as merchandise trade and services balances continue to improve following the 2022 shocks. Trade credits and currency and deposits—reflecting remittances and cash flows from abroad—have supported the financial account; direct investment declined from 2022 due to fading of one-off reinvestment of earnings of large agricultural companies.

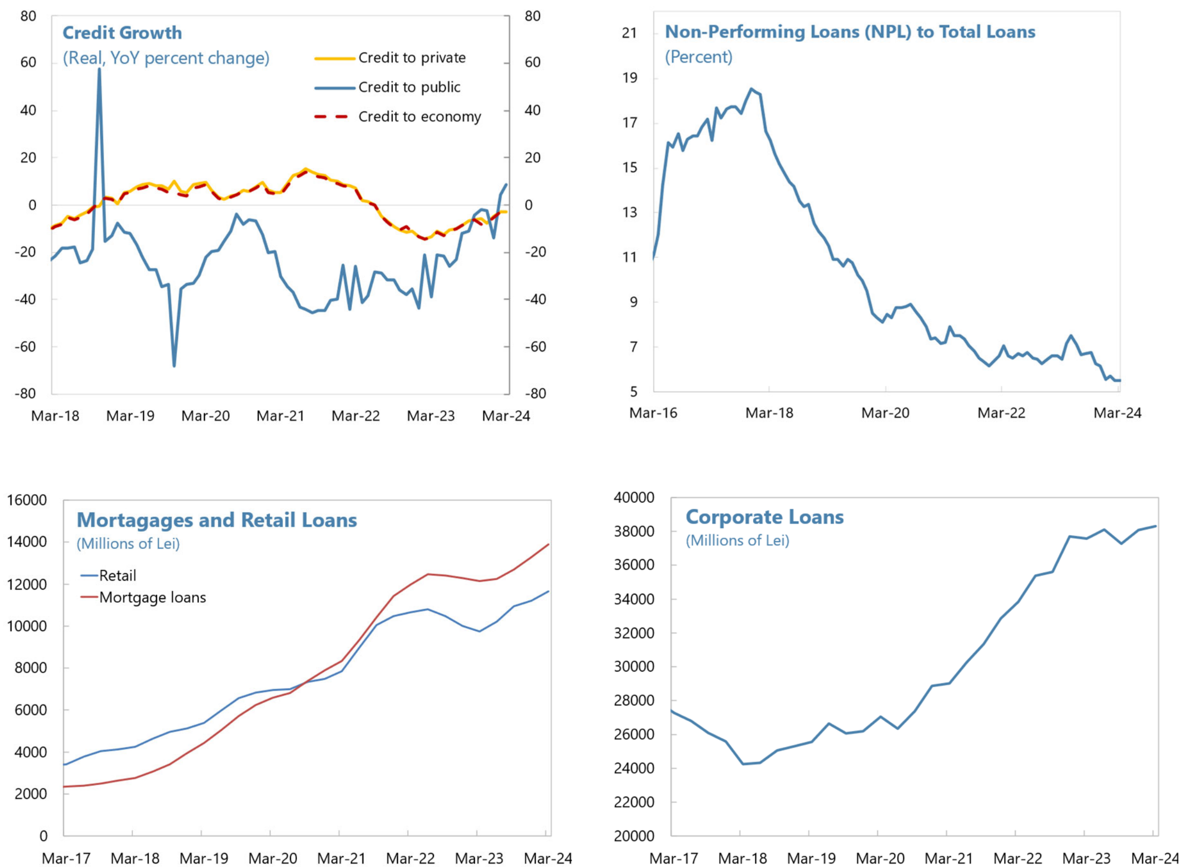
9. Financial soundness indicators remain strong. Bank aggregate capital adequacy stood at about 29 percent in February, well above minimum requirements, while liquidity coverage ratios were at 313 percent—also well above the 100 percent regulatory requirement. A large share of total bank assets (about 24 percent) is held in cash or other demand deposits. Profitability declined somewhat but remains robust, with ROE at 12.8 percent in February, reflecting still-high interest margins despite the lower base rate. Deposits have exceeded pre-war levels by about 30 percent, thanks to a strong increase in MDL demand and time deposits. Bank credit to the economy is recovering and grew by around 7.5 percent y/y in March, partly reflecting lower lending rates and pent-up demand from 2022/23, when credit provision flattened. Interest rates on new MDL loans declined from a peak of 14.3 percent in early 2023 to 9.45 percent in March. Credit growth is concentrated in real estate (+14.5 percent y/y) and retail (+19.5 percent y/y), while credit to corporates remains weak (+1.9 percent y/y) likely reflecting



Sources: NBM and IMF staff calculations.

geopolitical and macroeconomic risks. Credit quality continues to be strong, with NPLs at 5.5 percent in March—stable from December—although concentrated in agriculture (17.4 percent) and industry (14.4 percent). Insurance shows adequate capitalization and improving profitability.

Banking Sector Credit and NPLs



Sources: NBS, NBM, and IMF staff calculations.

OUTLOOK AND RISKS

10. The gradual recovery is expected to accelerate in 2024, though at a slower-than-previously-anticipated pace. Growth is projected at 2.6 percent in 2024, down from 3.9 percent at the fourth review, mainly driven by downward growth revisions in key trade partners. Domestic demand is projected to recover gradually, with investment remaining subdued due to persistent war-related uncertainty and still-high bank financing costs. Growth is projected to accelerate in 2025 as domestic demand further strengthens.

11. Relatively robust medium-term growth is projected. Activity is projected to pick up as war impacts dissipate, trade partners recover, and progress towards reforms for EU accession and ECF/EFF and RSF related reforms accelerate. Labor market reforms (reducing skill mismatches, increasing female labor participation) should boost productivity, while efforts to increase efficiency of public investments, improve the business environment, and bolster competition will support medium-to-long-term growth.[4] Nevertheless, a negative output gap is expected to persist in the medium-term, with GDP remaining well below the pre-pandemic and pre-war trend.

12. Risks to the outlook are large and tilted to the downside (Annex I). The war in Ukraine continues to pose significant uncertainty and risks (exchange rate, Transnistria, refugees). New energy shocks would weaken the outlook, worsen fiscal and external balances, and strain households. Political tensions, including linked to the upcoming elections, could jeopardize or reverse reform momentum and commitments under the ECF/EFF programs, lead to spending overruns, and weigh on external support. Vulnerability to extreme weather also represents a risk, especially given the significant share of agriculture in the economy. Insufficient progress on anti-corruption and governance reforms would undermine the business environment and growth. By contrast, faster-than-expected growth in trade partners, faster progress towards EU accession, and an acceleration of structural reforms, represent upside risks.

13. The authorities concurred with staff's assessment of the outlook and risks. They acknowledged that the recovery has been weaker than expected, while risks related to the war and geopolitics (illicit flows, cyber-attacks) persist. Uncertainty is impeding investment. They consider that policies should be more proactive to support the recovery, given the weaker-than-previously-projected outlook and the uncertain environment (e.g., via additional public investment). They plan to continue supporting SMEs, including by adjusting the existing program to facilitate access to bank lending through increased coverage. They pointed to the need to boost industrial production, further attract FDI, and reduce informality. The authorities also stressed that stronger medium-term growth is needed to catch up with EU income levels. They are designing an economic growth strategy for the next 10 years to target this objective. They just approved the National Development Plan for the years 2025–2027 aiming at building a '*European country, safe and prosperous for citizens and business environment*'.

PROGRAM PERFORMANCE

14. Program performance under the ECF/EFF appears broadly on track, although with some delays on structural reforms (MEFP Table 1):

- **End-December 2023 quantitative performance criteria (QPCs)** were all met. All QPCs, continuous PCs, indicative targets and the inflation consultation clause were met.

- **End-March 2024 indicative targets (ITs)** were all met, except for the IT on general government wage bill, which was missed by a small amount, but expected to be compatible with the approved annual budget allocation[5]. The Ministry of Finance (MoF) is preparing a proposal that will align functions with central government salaries, benefit technical level staff, and compress reference values.

[4] See CR 2023/428.

[5] The IT ceiling is proposed to be revised to align with the approved budget.

- **Structural conditionality:** The end-December SBs to strengthen tax administration reforms and on SOE triage were met (MEFP Table 2). However, the end-December SB on presentation to Parliament of amendments to strengthen of NBM independence and governance was not met, reflecting delays in reaching consensus among state institutions. Given the importance of NBM independence, particularly in light of the December dismissal of the NBM governor, this SB was reset as a prior action for the completion of this review, and was completed on June 3. The end-March SB on the adoption of an anti-corruption adjudication infrastructure law was also not met, reflecting the complexity of the law and extended discussions in parliament. The draft law is currently being prepared for its second reading in parliament. The SB has been reset for end-September 2024.

15. Performance under the RSF remains on track as well, with all three reform measures (RMs) for this review completed (Table 11):[6]

- **RM1.** The Government adopted the Climate Action Law and established the National Commission on Climate Change (NCCC) under the Office of the Prime Minister, through a supporting decree that clarifies responsibilities and procedures.

- **RM10.** An interagency steering committee on climate finance was established, including various government agencies and the Moldovan Banks Association.

- **RM11.** The Sustainable Finance Strategy ("Roadmap") was adopted and its implementation is starting.

POLICY DISCUSSIONS

Robust reforms, growth-focused and climate-resilient investments, and improved access to diversified energy sources are essential for sustainable development and convergence with EU income levels. The ECF/EFF supports policies aimed at ensuring macroeconomic and financial stability, strengthening governance and building strong institutions. The RSF is bolstering resilience against climate shocks, including through increased climate investments, energy sector reforms, improved financial sector readiness, and promoting sustainable finance.

A. Fiscal Policy

16. The approved 2024 budget rightly prioritizes better-targeted social assistance, strengthens social safety nets, aims to further sustain energy security, supports businesses, and focuses on growth-enhancing reforms. In line with program objectives, the deficit of 15,790 MDL million (4.8 percent of revised GDP) represents a consolidation from the 5.2 percent executed in 2023. It preserves contingencies for social programs and risks, critical given large uncertainty. Public investment levels reflect absorptive capacity. Social assistance reforms aim to

[6] See Figure 4 of CR 2023/428 for more detailed description of the RMs.

improve program design and impact, including (i) a better-targeted EVRF (to transition in the 2024/25 heating season from in-bill to cash transfers delinked from current energy consumption, in line with the RSF commitments (RM5)), and (ii) consolidation of the heating assistance allowance (APRA) into the EVRF. Pensions were increased in line with inflation, and support for the most vulnerable continued through adequate allocations for the Ajutorul Social Program.

17. Tax revenues are expected to be lower than in the approved 2024 budget, partially offset by new external grants. Collections over Q1 showed that more companies than expected claimed the tax incentive on undistributed income, which lead to lower CIT collections, while lower VAT reflected the impact of the downward revision to imports and contained inflation. Together with the downward revisions to economic activity, a likely revenue shortfall of about MDL 803 ml in 2024 compared to the approved budget is expected. External grant projections improved, with new pledges of 350 MDL ml in 2024. Revenue mobilization efforts continue, with the implementation of tax policy and administration reforms, including broadening the VAT base and aligning customs and tax procedures with EU rules. The implementation of an automated tax-filing compliance program to improve on-time filing of returns (introduced for VAT and excises), end-December 2023 SB, is also expected to contribute. Excises on tobacco and alcohol will continue gradually increasing until 2025 to align with EU directives. The tax incentive on undistributed income has a sunset clause that expires in 2025. Furthermore, Moldova is modernizing its tax system and harmonizing its Tax Code with the EU *acquis*, including by conducting budgetary and tax incidence impact evaluation of preferential tax treatments with IMF TA support.

18. The authorities will prepare a midyear supplementary budget in July. They consider that fiscal policy should be more proactive to support the recovery, given the weaker-than-expected growth outlook and some improvements in capital expenditure execution. Staff agreed to accommodate the expected revenue shortfall but advised to keep overall expenditures broadly unchanged compared to the approved budget. The new deficit—5 percent of GDP (modified end-December cash deficit performance criterion)—represents some relaxation to accommodate the anticipated tax revenue shortfall and should allow to meet higher pro-growth spending needs, mostly in infrastructure, while continuing the consolidation trend from the 5.2 percent of GDP in 2023. As a result, the supplementary is expected to include an EVRF top up (MDL 300 million), financed from earmarked grants, and pro-growth infrastructure projects with high execution rates; the higher spending for the Road and Regional Development Funds (MDL 1 billion) will be met mostly through reallocations from under-execution in current expenditures and contingencies. The supplementary will also reflect the authorities' request to use the full ECF/EFF disbursement for budget support, as opposed to a 50-50 split agreed when the reserve position was weaker,[7] to ease financing constraints and support the path of fiscal adjustment while continuing to support growth after the 2022 shocks. The MoF will also work towards increasing fiscal transparency, by starting preparation of the fiscal accounts in line with *GFSM2014* (new SB, end-December 2024), which will address current classification challenges in the wage bill, contingencies, and inventories.

[7] When the ECF/EFF program was approved in 2021, and subsequently augmented at the beginning of the war in Ukraine, the reserve coverage was projected at around 4.5 months of imports for 2024, as opposed to the current projection (about 6.5 months); IMF Country Report No. 22/140.

19. Medium-term fiscal policies should continue to balance development needs with gradual consolidation to preserve fiscal and debt sustainability. Moldova's MTBF envisages a deficit reduction to 3.1 percent of GDP by 2027, reflecting a gradual reduction of current spending as social assistance programs move towards more sustainable levels and further revenue mobilization through tax administration reforms that align Moldova's Tax Code with the EU standards. Consolidation is also supported by: (i) additional reforms in tax policy and revenue administration, including the MoF's preparation of cost-benefit analyses to phase out tax expenditures (end-December 2024 SB), and a normalization of the CIT tax incentives for SMEs on undistributed dividends; (ii) modernizing tax audit processes (new SBs); (iii) improving budget execution with the implementation of PFM, MTBF and PIM reforms; and (iv) spending efficiency gains with improved targeting and integration of social programs. While aiming to deepen the domestic debt market, additional grants and concessional financing remain critical.

20. Although energy security has improved with the reduced reliance on gas imports from Russia, risks remain. Important progress has been made to reduce reliance on energy imports from Russia through Transnistria, in particular for gas imports, for which sufficient interconnection capacity with Romania has been built. However, the electricity sector still relies heavily on one supplier, MGRES in Transnistria. An agreement was reached with MGRES in October 2023 to ensure supply until end-2024, but the potential expiry of a Russia/Ukraine gas transit agreement at end-year may affect supply to Transnistria and make electricity more expensive. Such a downside scenario could lead to an increase in energy costs—by some estimates, $330 million per year;[8] while the budget has buffers, additional international support would be needed. The risk of a disruption in electricity provision should be mitigated once sufficient interconnection capacity with the Romanian market has been set up, which could be achieved over the coming two years according to the authorities. Furthermore, uncertainty remains regarding an audit of debts to Gazprom. Staff welcomed the authorities' plans to prepare an action plan for the upcoming heating season, with preventive and mitigating measures to address contingencies. The EVRF continues to protect the most vulnerable from energy cost spikes and is expected to do so going forward via cash transfers.

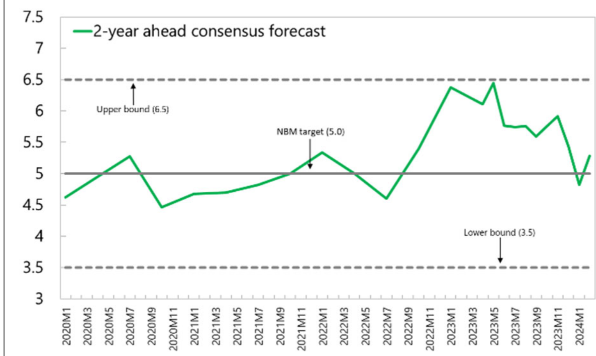
B. Monetary and Exchange Rate Policies

21. Careful calibration of monetary policy decisions remains critical. The NBM's forward-looking and data-driven monetary policy, consistent with its inflation-targeting regime, has been effective in anchoring inflation expectations. Consensus forecasts suggest that medium-term inflation expectations remain within the NBM's target band. With core inflation expected to decline and a negative output gap expected to persist, the NBM's current policy stance is appropriate (¶7). Staff advised to pause rate cuts and focus on lowering high MDL and FX reserve requirements (RRs),

[8] This is an estimate from an analysis prepared by the German Economic Team (GET Newsletter, March–April No. 82, 2024) for the increase in electricity costs for Transnistria and right-bank Moldova should market prices for gas, rather than prices subsidized by Russia, apply.

absorbing any excess liquidity as needed through CDs or open-market operations. Staff emphasized the importance of ensuring that monetary policy decisions are not driven by financial considerations related to sterilization costs. The May decision to lower RR is therefore welcome. Staff will continue to discuss the path towards gradual normalization of RRs with the goal to better align them with the monetary policy stance, and reach a long-term level that would better support credit intermediation. Continued financial market deepening and further capital account liberalization—supported by IMF TA—will help strengthen transmission.

Inflation Expectations
(percent)



Source: Consensus Forecast

22. Maintaining ER flexibility, while preserving sufficient FX buffers, will be critical to cope with new or longer-lasting shocks. Should risks materialize and FX pressures re-emerge, FX interventions should be limited to preventing disorderly adjustments and curbing excess volatility, as was done at the beginning of the war, with the NBM exercising discretion under a rules-based framework. Interventions have been infrequent of late, with interventions on only two days in 2024 and only 15 days in the last 12 months.

23. Continued efforts to strengthen NBM independence are critical to ensure monetary policy credibility and macro-financial stability and achieve program objectives. Central bank independence and a strong governance framework are essential to ensure formulation and implementation of appropriate monetary and prudential policies. Following the dismissal of the former NBM Governor in December, an IMF team conducted an assessment in March of the NBM's legal, governance, and operational frameworks and provided recommendations to further strengthen autonomy, governance, and transparency and accountability (Box 1).[9]

Box 1. Moldova: Key Findings of Assessment of NBM Autonomy and Governance

Discussions with NBM leadership and other stakeholders facilitated a thorough assessment and recommendations in three main areas:

Personal and institutional autonomy

Assessment. (i) Appointment and dismissal procedures of members of NBM decision-making bodies lack checks and balances and should be strengthened; (ii) the 7-year term of Supervisory Board (SB) members is longer than best practices; (iii) members of the Executive Board (EB) and SB with expired mandates holding office until appointment of replacements hampers personal autonomy; (iv) staggered terms of appointment

[9] Furthermore, an IMF central bank board workshop tentatively scheduled for September 2024 will provide another opportunity to advise and provide assistance on how to improve NBM's governance and its relations with key stakeholders through its decision-making bodies.

Box 1. Moldova: Key Findings of Assessment of NBM Autonomy and Governance
(concluded)

for members of NBM decision-making bodies—important for continuity and knowledge transfer—are lacking; (v) criteria for dismissal of EB and SB members, although in line with EU practices, are general and leave room for interpretation and possibly abuse; (vi) dismissal provisions lack due-process guarantees; and (vii) there is a lack of understanding among relevant state agencies about responsibilities regarding the recovery of assets from the 2014–15 bank fraud.

Recommendations. (i) More checks and balances for appointment/dismissal of members of the decision-making bodies; (ii) appointing EB and SB members for a fixed term, ensuring stepping down when terms ends; (iii) shortening to 3 or 5 years term of SB members; (iv) ensuring staggered mandates of EB and SB members; (v) clarifying dismissal criteria in the NBM law; (vi) ensuring due process in dismissal procedures; and (vii) preparing an MoU to clarify responsibilities among agencies involved in asset recovery from the 2014–15 fraud.

Governance

Assessment. (i) The structure of the SB (dominated by EB members), remuneration of its members and their profile/qualifications, absence of a "secretary's department", and lack of annual SB self-assessment and EB performance assessment inhibit effective functioning of NBM's governance; and (ii) overlaps in executive management responsibilities between the EB and Governor create uncertainty and potential for conflict; EB is now only partially constituted.

Recommendations. (i) Fully constitute EB; (ii) transform SB into a strong oversight board; (iii) clarify EB/Governor responsibilities; (iv) strengthen internal governance by reviewing the SB's and EB's charters, organigram, and strategy; establish full-fledged secretariat; (v) introduce assessments of decision-making bodies to strengthen performance and collegiality; and (vi) perform periodic audits of governance by NBM Internal Audit Department to provide assurances of governance improvement.

Transparency and accountability

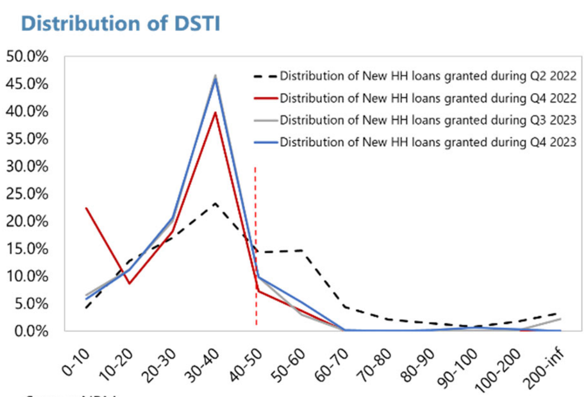
Assessment. (i) NBM public standing is hindered by legacy of the 2014–15 banking fraud; and (ii) there is a lack of understanding of NBM's accountability, including to Parliament.

Recommendations. (i) Undertake an IMF Central Bank Transparency Code review; and (ii) clarify legal provisions on NBM's accountability to Parliament. Strengthen public communications.

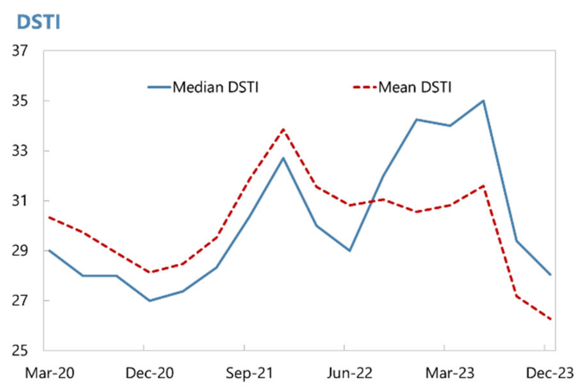
24. Recommendations to strengthen NBM independence, governance, transparency, and accountability will be implemented through amendments to the NBM law. In addition to the related prior action for the completion of the fifth review, submission to Parliament of a package of legislative amendments to strengthen the NBM law, in consultation with staff and in line with the March mission findings, is set as a new end-November SB. The amendments will focus on (i) strengthening appointment/dismissal procedures and due process provisions; (ii) reforming governance and decision-making structures of the NBM, especially the qualifications, membership, tenure and mandate of the EB and SB; and (iii) clarifying legal provisions on NBM's accountability to Parliament. An MoU will also be prepared and published delineating responsibilities among institutions involved in asset recovery from the 2014–15 bank fraud by end-June. The authorities also requested an IMF Central Bank Transparency Code review to be completed by end-November 2024, with follow up actions to be incorporated into the program at the time of subsequent reviews. With these measures, the NBM will be modernized and better protected against undue external pressures, more agile, and in a position to collaborate with other agencies and the public in a more transparent and accountable way. This will better position the NBM to deal with challenges ahead, included related to risks (e.g., cyber security), financial sector development, digitalization, and EU accession.

C. Financial Sector Policies

25. Macro-prudential policies remain appropriate, with scope for some relaxation in borrower-based measures. With bank credit growth below its long-term trend, the authorities have maintained the counter-cyclical buffer rate at zero and the systemic risk buffer at one percent. In October, they released the systemic risk buffer for household exposure, with improvement of credit quality indicators and the rapid fall of inflation, with positive consequences for real incomes. LTV and DSTI limits, introduced in 2022, have been effective in restraining credit growth, and have effectively shifted loans towards less risky segments. Although lower interest rates have effectively brought DSTI ratios to lower levels, low penetration of credit and the strength of the banking sector suggest room for mild relaxation of borrower-based measures.

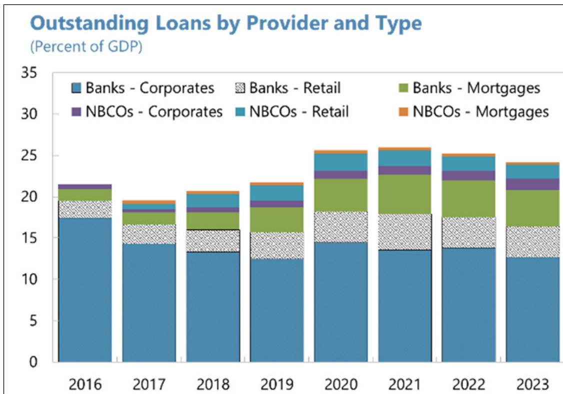


Source: NBM.



Sources: NBM and IMF staff calculations.

26. Non-bank credit organizations (NBCOs) continue to grow, and reforms aimed at enhancing their financial stability are ongoing. NBCO NPLs increased marginally in 2023 to 12.1 percent, from 11.7 percent in 2022. The sector continues to be profitable, with ROA of 6–7 percent. Funding continues to be mostly credit and loans (60 percent)—mostly from non-residents (55 percent), and other financial institutions (31 percent)—and equity (35 percent). About 37 percent of NBCO loans is extended in FX, therefore limiting their net open FX position. The NBM, which now supervises NBCOs, has adopted improved reporting requirements, effective July 2024.



Sources: NBM and IMF staff calculations.

27. The health of the insurance sector has stabilized and continues to be dominated by the non-life sector (MTPL and motor optional insurance). As of end-2023, the sector was liquid, and profitable with an average solvency ratio of 171 percent. Preparation and adoption of the required legislation for introduction of Pillar II and Pillar III of Solvency II is ongoing (end-September SB). Following conclusion of an EU Twinning Project, the NBM is preparing a Balance Sheet Review to assess readiness of insurers Pillar I of Solvency II. In parallel, the NBM is preparing legislation for transposing Pillar I, with the goal to adopt it in 2026, but the date of the entry into force will depend on the results of the Balance Sheet Review. With the transfer of competences to the NBM, supervision will continue to be geared towards ensuring financial stability, while being guided by the principle of proportionality.

28. Progress in reforming other areas of the financial sector is ongoing. The recently introduced "twin peak" supervisory framework[10] is working well, with good cooperation between the two regulators. The NCFM is currently reviewing the regulatory framework on consumer financial protection. Efforts to further improve financial sector resilience are ongoing. The authorities continue to strengthen their framework for systemic risk analysis and stress testing and will be introducing maturity ladder and LCR-based liquidity stress tests, developed with IMF TA. They continue conducting regular stress tests for both the Deposit Guarantee Fund (DGF) and banks, are improving the resolution and liquidation framework, and are discussing a new model for forced liquidation developed in consultation with IMF TA. Internal and external regulations for emergency liquidity assistance (ELA) have been updated in line with best practices, and the authorities have agreed to start internal consultations to clarify types of government guarantees and conditions under which they could be granted in the context of ELA—again following recommendations from IMF TA.

29. Efforts to strengthen financial inclusion are ongoing. To improve financial inclusion by facilitating cashless and cheaper payments, the authorities launched an instant payment system in March, with over 100,000 accounts activated by mid-April. They plan to extend it to cover person-to-business, business-to-person, and person-to-government transactions by September. Recent amendments to the law on payment system providers (PSPs) have been reconsidered; the new amendments correct some loopholes and ensure licensing and adequate supervision of EU-licensed and national PSPs. The authorities have also just submitted their application to the Single Euro Payments Area (SEPA). Work is ongoing to set up an inter-agency committee with a mandate to develop, implement, and monitor a National Financial Inclusion Strategy (NFIS) with support from the World Bank (end-June 2024 SB). The diagnostic phase is ongoing, action plan is expected to be finalized by end-2024.

30. The agreement not to relax the current supervisory and regulatory framework, which is serving Moldova well, is welcome. Relaxing thresholds for NBM authorization to buy bank

[10] According to the new model, the NBM supervises NBCOs, savings and lending associations, credit history bureaus, insurance companies, and insurance intermediaries; while the NCFM supervises capital markets (including voluntary pension funds, and the Central Securities Depository) and consumer protection related matters for all financial services.

shares and for minimum disclosure–under consideration to facilitate cross-listing of shares of Moldova's largest bank on the Bucharest stock exchange—would increase risks by easing notification, approval, scrutiny, and reporting standards, counter to reforms following the 2014–15 banking fraud. The context remains complex, with unresolved legacies from the fraud, high domestic financial criminality risks, insufficient UBO registries, corruption risks in the judiciary, and heightened geopolitical risks. Staff has advised against relaxation; the authorities agreed for the time being and will continue analyzing risks and options for capital market transactions and development. NCFM continues drafting a national strategy for capital markets development, with support of USAID and the EBRD, aiming for completion by end-2024.

31. Strengthening the AML/CFT regime to protect financial sector integrity from illicit flows remains critical. Mitigating ML risks from proceeds of crime, including from cross-border financial flows related to corruption, embezzlement, and tax evasion, requires improving AML effectiveness and information exchange. NBM's efforts to develop risk-based AML supervision, supported by the IMF TA, should continue.

D. Structural Policies

32. Corruption and governance weaknesses undermine trust in public institutions and growth. The Anti-Corruption Prosecutor's Office (APO) is achieving the first results in investigating high-level corruption, and its bolstered investigative jurisdiction has entered into force. The authorities increased APO's budget and staffing and plan to allocate new premises by end-June 2024. APO staffing autonomy was not enhanced, undermining APO's ability to hire required personnel. APO should be granted powers to hire its own investigative officers, as currently it is fully reliant on the seconded staff, and participate in the transfer of prosecutors to APO (new SB).

33. Strengthening rule of law requires judiciary reforms, prioritizing adjudication of corruption cases through the establishment of the Anti-Corruption Court (ACC). As judicial reforms have progressed slowly, the judiciary suffers from low trust and credibility. The law to establish an ACC, including a strengthened judge selection process in line with IMF TA advice, was not approved by end-March 2024 (missed SB), because a longer period was needed to reach consensus on the key design issues. The draft law is currently being prepared for its second reading in parliament and is now expected to be approved this summer, in consultation with IMF staff (SB reset for end-September).

34. SOE reform momentum should continue. The authorities have completed triage of all 238 SOEs at the central government level by classifying SOEs into five categories (end-December 2023 SB). They are currently working on a strategy for these SOEs that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks; and (ii) rationalization of the number of SOEs in non-strategic sectors or which are loss-making (end-September 2024 SB). The ECF/EFF program will support the strategy's implementation once completed.

35. Reforms to boost labor force participation, including to close gender gaps in employment, are necessary to support productivity and unlock growth potential. Despite notable improvement in the past decade, labor force participation remains significantly lower compared to advanced and emerging European peers. This is especially due to high prevalence of informality, persistent and increasing outmigration, skill mismatches between labor supply and demand, and barriers to women employment, particularly women with children. Needed reforms include boosting efficiency of education expenditure, increasing average education levels and outcomes, addressing mismatches between available skills and labor demand, reducing informality, strengthening institutions and the business environment to help reduce outmigration, and enhancing childcare policies. While requiring additional investment, policies to close the gender gap in employment would have an immediate positive impact on labor force participation, households' income, and large long-term benefits for economic growth; the aggregate return on investment for the economy is estimated at about US$5.8 for every dollar invested (Annex II).

36. The authorities should also continue their determined efforts towards greater energy security. To diversify energy imports and reduce the sole reliance on supplies from Russia, interconnections are being built with Romania for gas and electricity. Gas from LNG terminals in Greece is already flowing from Romania to Moldova through the trans-Balkan pipeline and gas stored in Ukraine was used last winter. Work on new electricity interconnections with Romania and the European Network of Transmission System Operators (ENTSO-E) is ongoing. Interconnector capacity remains limited for now so that dependence on electricity from MGRES in Transnistria remains high. Renewable energy generation is growing albeit from a low level.

E. Climate Policies

37. The RSF is supporting implementation of macro-critical measures in climate and energy, strengthening balance of payments stability and catalyzing financing for adaptation and mitigation. Early RSF measures have facilitated a whole-of-government approach to tackling climate challenges and improving institutional frameworks. Looking ahead, RMs forthcoming in the next review will focus on disaster risk management, energy sector policies and fiscal management.

38. RMs implemented in the current review:

- **Adoption of the Climate Action Law and the establishment of the National Commission on Climate Change (NCCC).** The Climate Action Law was passed as part of **RM1** and serves to enable a low carbon development and climate change resilience. It i) establishes a normative framework for climate actions to support achieving climate neutrality by 2050; ii) seeks to reduce emissions and enhance capacity for adaptation and resilience to climate change while reducing vulnerability; and iii) provides the NCCC with clear tasks and responsibilities, to act as a government body, guiding government entities, and ensuring coordination across sectors and levels of government. A government decree established the NCCC, whose members include representatives of the Ministries of Environment, Finance, Energy, Infrastructure and Regional Development, Agriculture and Food Industry, Health, Infrastructure and Regional Development, Labor and Social Protection, Education and Research, Internal Affairs, under the Prime Minister. The law also delineates responsibilities of the Ministry of Environment (defining the methodology for climate impact assessments, undertaking climate impact assessments, providing input to the decision-making process) and the MoF (designing the decision processes for public investment management (PIM) and budgeting to incorporate climate impact assessment and related information as undertaken and provided by the Ministry of Environment). Now that the NCCC is established, it is critical to charge it with coordinating and advancing policy implementation.

- **Establishment of an interagency steering committee on climate finance.** With the establishment of the steering committee by an MoU, **RM10** was met. The committee is chaired by an NBM representative and consists of representatives of several line ministries (Finance, Environment, Agriculture, Economy, Energy, Infrastructure), the banking association, the NCFM and, if needed, other entities and institutions. It aims to strengthen collaboration among agencies, regulators, banks, and environmental experts by regular meetings (semi-annually or with other periodicity if commonly agreed) and data and information sharing. Key goals envisaged are to facilitate the integration of sustainable financing principles into the national financial system, promoting and implementing decarbonization policies and measures, and evaluating the impact of entities on society and on the environment, and how sustainability aspects affect entities. Important tasks will be to promote and implement the Sustainable Finance Roadmap (**RM11**, adopted in the current review) and to contribute to the development of a taxonomy of environmentally sustainable economic activities (**RM12**, Eighth Review). The authorities are discussing with key development partners (IFC, IMF, OECD) how to develop the taxonomy based on the EU taxonomy and tailored to the reality of Moldova's economic structure.

- **Development, adoption and start of implementation of the Sustainable Finance Strategy ("Roadmap").** The objective of the Roadmap, enacted as part of **RM11**, is threefold: (i) to create a strategic and systematic vision for development of sustainable finance; (ii) to incorporate fundamental sustainable finance terms into the legal framework guiding Moldova's finance; and (iii) to identify priorities and craft an action plan to develop and implement Moldova's sustainable finance policy. The Roadmap consists of four pillars that address "increasing awareness and capacity building", "sustainable finance flows", that include the development of a taxonomy of environmentally sustainable economic activities (**RM12**), "environmental, social and governance (ESG) considerations' integration and risk management" and "transparency and market discipline". The authorities have started implementing the strategy, organizing a workshop on ESG concepts, principles and legislation and establishing the interagency steering committee on climate finance.

39. Preparations are ongoing for the RMs for the 6th ECF/EFF Review (2nd RSF review):

- **Disaster-risk Management (DRM).** The Ministry of Environment is working on Moldova's DRM Program (**RM2**). The plan is to set up the full DRM management cycle that adds both rehabilitation and recovery and prevention and mitigation to the existing preparedness and response capabilities. In this comprehensive approach to DRM, the steps in the cycle support and inform each other, reducing risk and cost of disasters and of disaster recovery, thereby protecting public finances and livelihoods. The diverse actions required, the many actors involved, and the need to implement long-term programs call for strategic leadership that the Prime Minister's Office is best suited to fulfill, through a permanent institutional structure, ideally within its role in the NCCC.

- **Energy Sector Policies.** Staff discussed progress on **RM4** and **RM5:**

  - **RM4** outlines that, in addition to the current cost of provision of services, the cost-recovery rate should also reflect the cost of the infrastructure needed to support the developments and reforms identified in the Energy Strategy. The cost-recovery rates should then be compared with actual tariffs and tax expenditures identified, followed by a distributional impact analysis. And any gap between tariff and cost-recovery would then be closed in a transparent way, either through tariff adjustments or subsidies. A key tool for this analysis is the Climate Policy Assessment Tool (CPAT) developed by the IMF. The authorities indicated that the work will likely be finalized slightly later than by the indicative due date.

  - **RM5** aims at ensuring that energy price signals are fully preserved and incentivize efficient energy consumption. A key element is to remove the current untargeted in-tariff subsidies, that do not provide adequate incentives to save energy, and replace them with targeted cash-transfers to households. Although the authorities noted concerns related to political sensitivity and timeline, and to capacity to implement this RM in time, preparations are advancing well, with IMF and WB support. They are now confident to have the necessary legislation adopted by September to roll out the new EVRF support in November, as the new heating season starts. Cash-transfers would be delinked from current energy consumption, and progressive, with poorer households benefitting more.

- **Fiscal Management.** The MoF is preparing inclusion of climate change impact and vulnerability assessments in project appraisal and selection methodologies (**RM7**). This will follow recommendations of the IMF's Climate-Public Investment Management Assessment (C-PIMA) tool that covers five dimensions of climate-aware planning, coordination among various entities, project appraisal and selection, budgeting and portfolio management and risk management. The authorities expect a government decision for its implementation in June.

Figure 1. Moldova: Reform Measures for Moldova's RSF

Board Approval: December 2023

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

Source: IMF staff.

PROGRAM MODALITIES

40. Risks to the ECF/EFF and the RSF are moderate. The ECF/EFF program is fully financed for the next 12 months, with good prospects for the remainder of the program. Program risks are mitigated by the authorities' continued reform efforts and strong external support from multilateral and bilateral stakeholders. Fund-supported reforms continue to benefit from strong synergies with the EU accession agenda. EU and World Bank disbursements (initially planned for 2024Q1) are likely to occur in 2024Q2. Recent additional grant financing, including from the World Bank and bilateral support for the Energy Vulnerability Reduction Fund from Sweden and Italy through the UNDP, and bilateral loans on concessional terms continue to support the catalytic role of the Fund program. Furthermore, with the use of full ECF/EFF disbursements for budget support (as opposed to a 50-50 split agreed when the reserve position was weaker), in addition to the RSF disbursements, reliance on more expensive budget financing will be reduced, supporting the recovery and increasing medium-term policy space.

41. Moldova's capacity to repay remains adequate but subject to significant risks (Table 8). Fund's exposure peaks at 6.5 percent of GDP in 2024, while total debt service to the Fund peaks at 5.9 percent of total exports in 2025. Moldova has a strong repayment record, with public debt considered sustainable. Risk of external debt distress remains low, while overall risk of debt distress is assessed as moderate. Capacity-to-repay risks remain rooted in the volatile geo-political environment and the possibility of policy reversals. These risks are mitigated by the authorities' program ownership and development partners' support.

42. Prior action. The missed end-December 2023 SB on strengthening the NBM's independence was reset as a prior action for completion of this review. The prior action was completed on June 3.

43. Proposals for new and modified ECF/EFF conditionality (MEFP tables 1 and 2):

- *Quantitative targets.* New quarterly ITs and PCs are proposed for end-March and end-June 2025, respectively. The authorities are requesting a modification of the end-2024 ceiling on the cash deficit of the general government, in line with the revised forecast and to reflect lower-than-projected revenues, of MDL 803 million, that allows for the continuation of a gradual consolidation path and is consistent with program objectives.

- *Inflation consultation band targets*. New targets are being proposed for end-March and end-June 2025.

- *Structural benchmarks*. Five new SBs are being proposed: (i) submission to Parliament of a package of legislative amendments to strengthen the NBM law (**end-November 2024**), (ii) adopting legal amendments to grant APO autonomy in hiring of staff (**end-November 2024**), (iii) preparing a report summarizing the findings of a review of the legislative framework and practices of tax audits (**end-January 2025**), (iv) developing a plan for modernization of tax audits in line with the findings of the report (**end-April 2025**), and (v) presenting the fiscal accounts in line with *GFSM2014* (**end-April 2025**). The missed structural benchmark on the adoption of the law on the establishment of anti-corruption adjudication infrastructure is also proposed to be reset as a SB for **end-September 2024**.

STAFF APPRAISAL

44. The Moldovan economy is recovering from spillovers from multiple shocks, although at a more gradual pace. Growth was sluggish in 2023 and is expected to pick up slowly this year, driven by weaker-than-expected domestic demand and a slower recovery of main trading partners. Credit growth is recovering—from low levels—and the accommodative monetary policy stance will support domestic demand. Inflation remains within NBM's target band, and FX reserves stand at comfortable levels.

45. In the context of elevated risks, the authorities' focus on contingency planning and agile policies is welcome. Staff welcomes progress to enhance energy security and encourages authorities to pursue this further. The start of EU negotiations provides a positive upside risk as it signals commitment to growth-friendly reforms.

46. Fiscal policies continue to be rightly focused on protecting the most vulnerable and supporting the economy, with gradual consolidation to build buffers and preserve debt sustainability. The anticipated revenue shortfall compared to the approved budget justifies an accommodation in the overall deficit. The authorities' intention to increase infrastructure spending is welcome, especially given improvements in spending execution. Staff encouraged the authorities to maintain a gradual consolidation path, given the expected decline in external grants over the medium term.

47. Staff welcomes the NBM's latest decision to start reducing reserve requirements, which should stimulate private sector lending. Given an uncertain inflation trajectory going forward, staff advise against further lowering the base rate for now.

48. Financial sector reforms should continue, with the new supervisory model fully operational. Work is also ongoing, with IMF TA, on strengthening the ELA and liquidation and resolution frameworks and to improve financial inclusion and the regulatory framework for consumer protection. Staff supports the authorities' ambitions to develop the capital market. Staff welcomes the authorities' commitment to maintain the current prudential requirements on share ownership in the banking sector unchanged.

49. Staff welcomes progress and new commitments to strengthen NBM governance and autonomy. A prior action in this area has been implemented, and an MoU on asset recovery under preparation, are welcome developments. Staff and the authorities have worked together on a diagnostic and recommendations to further strengthen autonomy, governance, and transparency and accountability. Staff look forward to the development and implementation of actions in these areas.

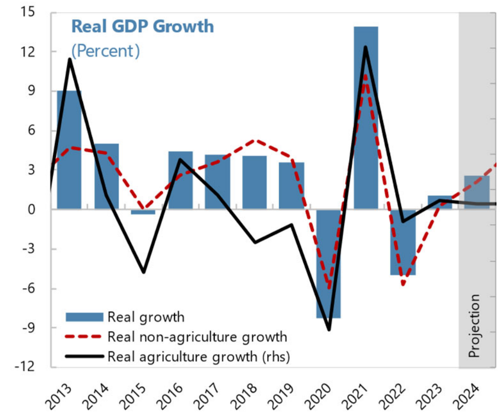
50. Staff look forward to further progress in anti-corruption reforms with the approval of legislation on a new Anti-Corruption Court, albeit with delay. The law establishing a new Anti-Corruption Court is expected to be adopted this summer with a credible selection process for judges and a jurisdiction that will allow it to be focused and not overburdened. Staff encourages the authorities to operationalize the Court quickly and effectively.

51. Staff commends progress achieved under the RSF, including the adoption of the Climate Law, the Sustainable Finance Roadmap, and the establishment of the interagency steering committee on climate finance. Staff welcomes progress in moving in-bill energy support to cash transfers, delinked from consumption to provide support while incentivizing savings. There is a need to work carefully on communications regarding this reform, given sensitivity. The authorities should also step-up preparations to determine energy cost-recovery rates and to ensure a more strategic, comprehensive approach to coordinating climate action under the newly-established NCCC.

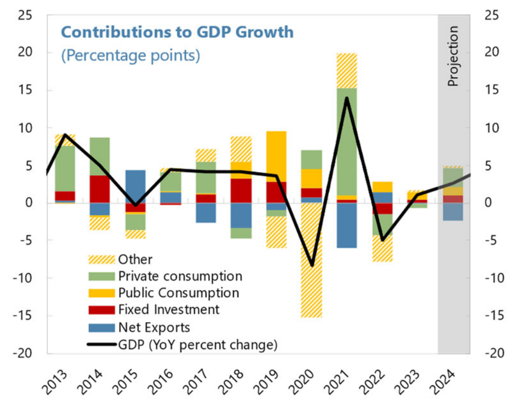
52. Staff supports the completion of the fifth reviews under the ECF/EFF and the first review under the RSF. Staff also supports (i) the modification of a QPC, and (ii) the resetting of 1 and adding of 5 new SBs. Policies outlined in the attached Letter of Intent are adequate to achieve the program's goals.

Figure 2. Moldova: Real Sector Developments

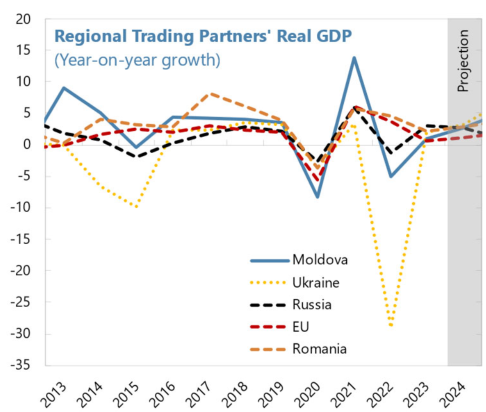
Recovery in 2023 was slower than anticipated…



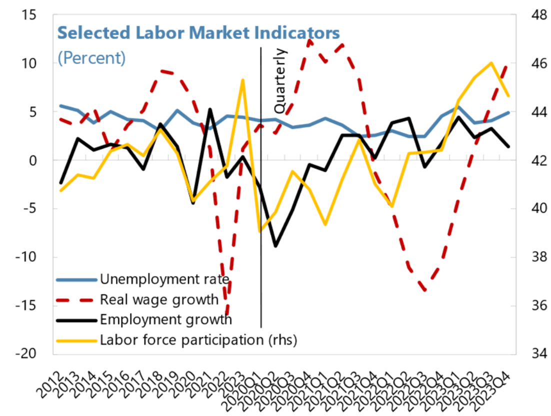
…driven by weak domestic demand.



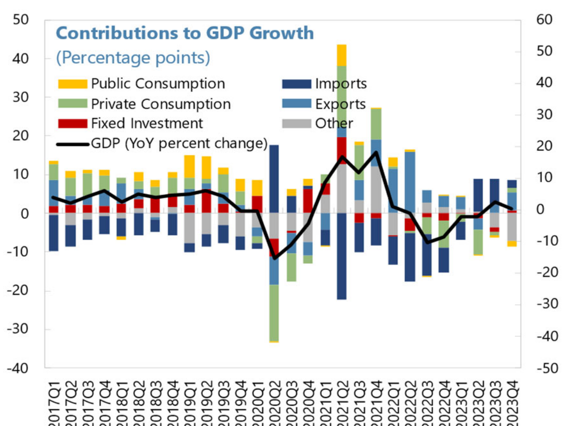
The rebound in key trade partners was also modest.



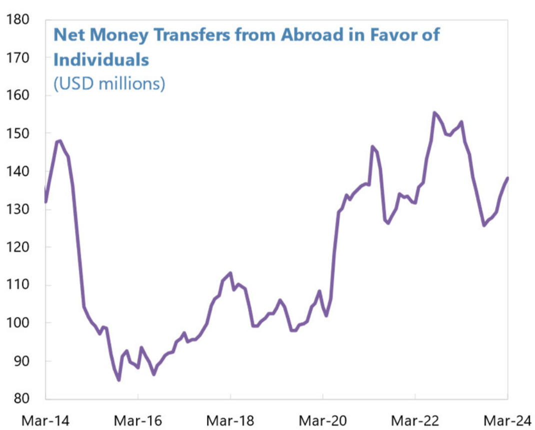
Real wages are recovering, driven by a rapid decline of inflation.



The trade balance was a key driver of growth in 2023.



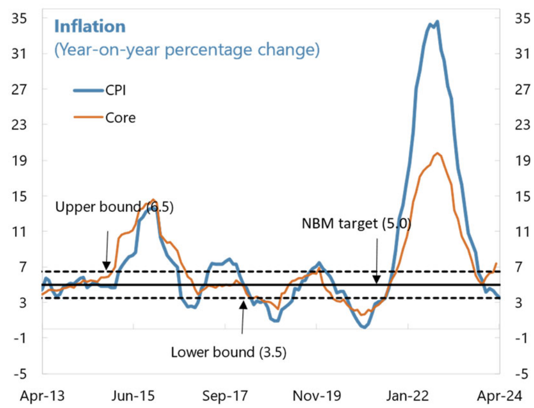
FX inflows, important to support consumption, remain depressed.



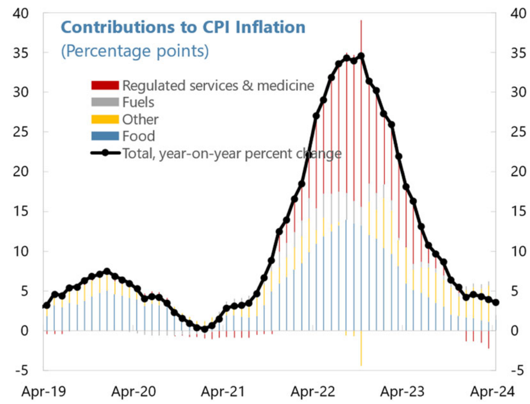
Sources: NBS, NBM, and IMF staff calculations.

Figure 3. Moldova: Monetary Developments

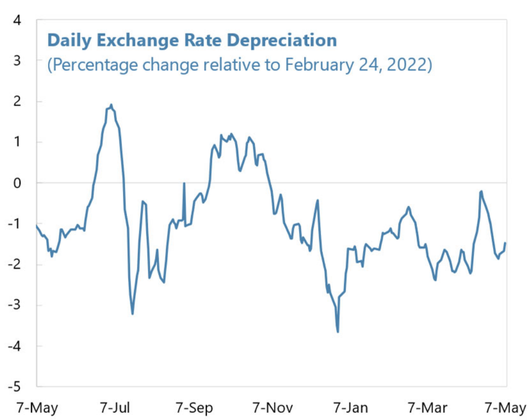
Though core inflation increased, headline inflation continued to decelerate in 2024…



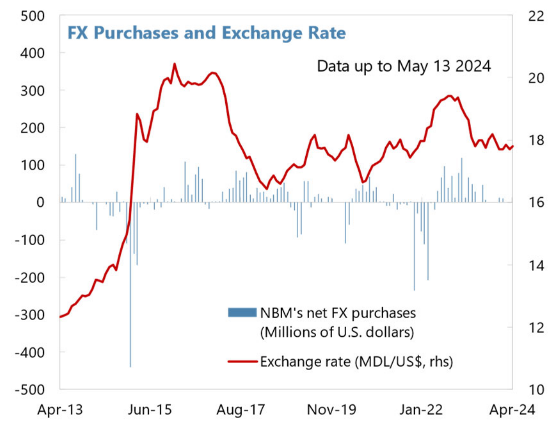
…driven by a decline of food and regulated prices



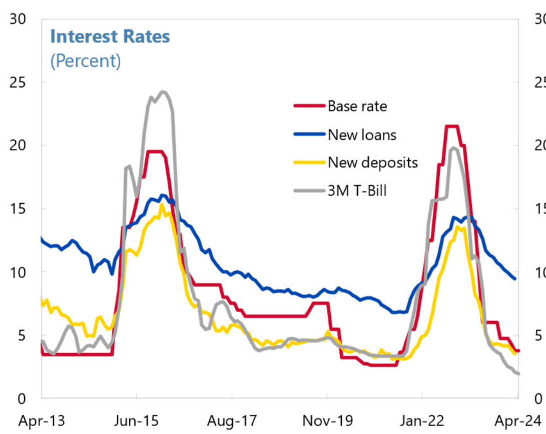
The leu appreciated by about 2 percent compared to end-2023…



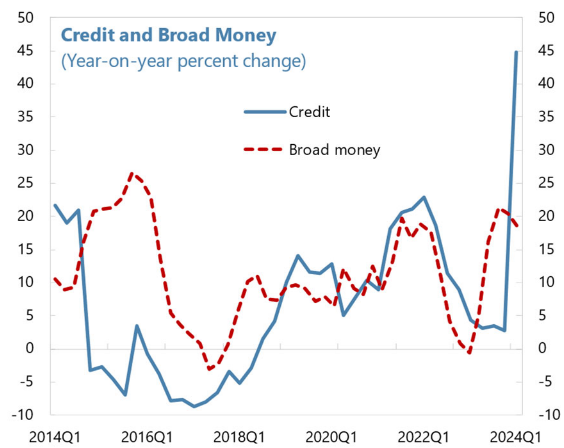
…and FX interventions have been limited.



Credit conditions remain tight…



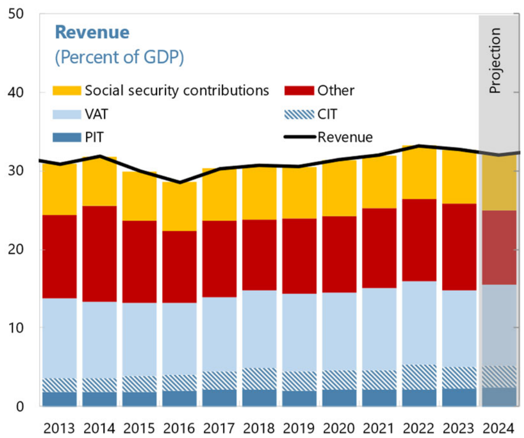
…reducing liquidity in the economy.



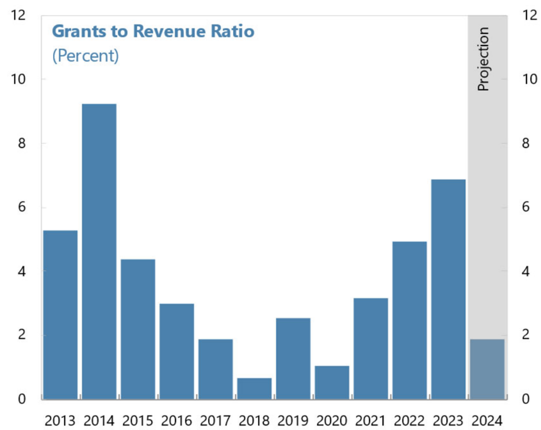
Sources: NBS, NBM, and IMF staff calculations.

Figure 4. Moldova: Fiscal Sector Developments

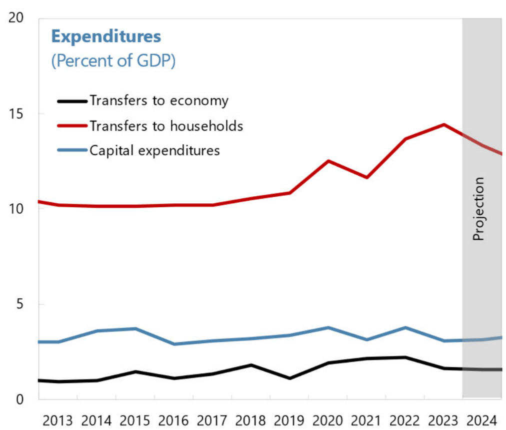
Revenue collection was slightly below expectations…



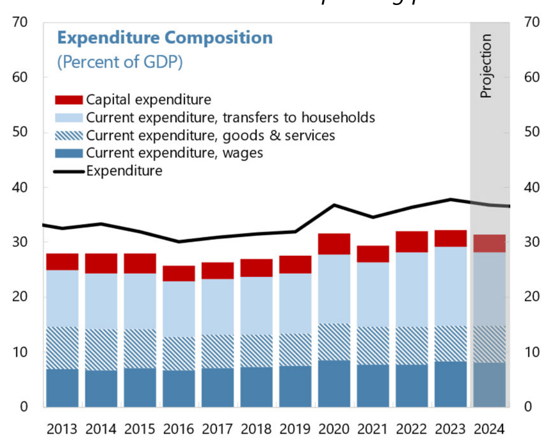
…but external support was favorable



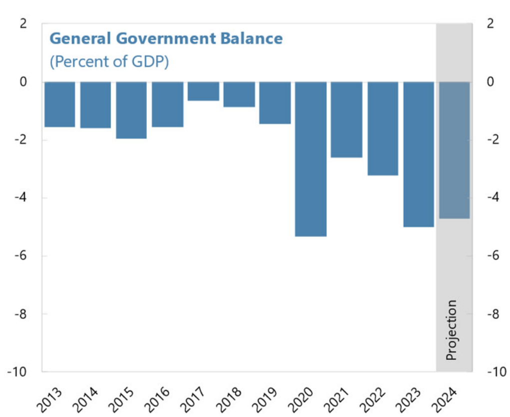
Spending pressures remained elevated…



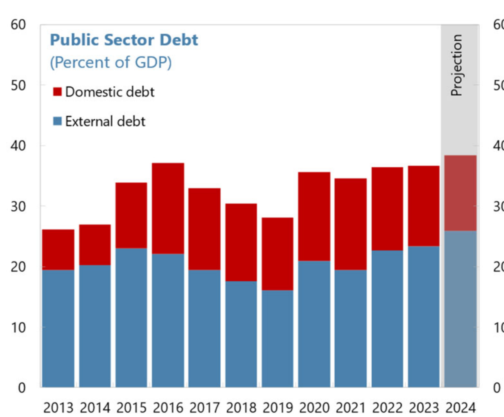
…as crisis demands on current spending persist.



The deficit was 5 percent in 2023.



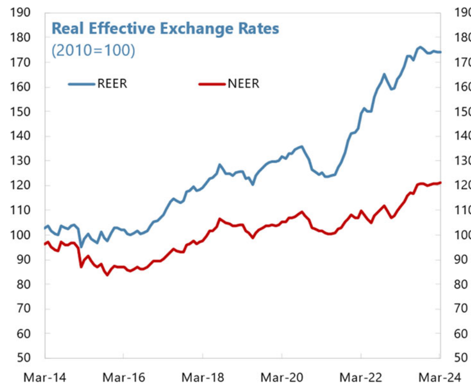
Public debt remains contained.



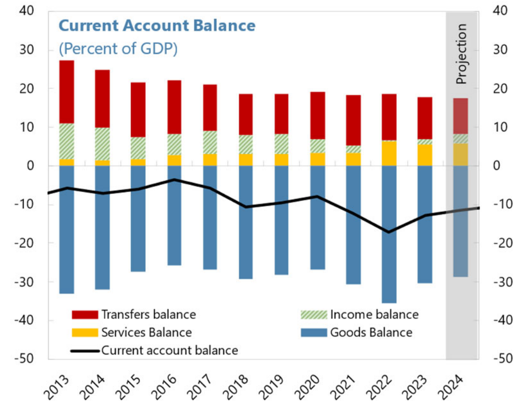
Sources: NBS, NBM, and IMF staff calculations.

Figure 5. Moldova: External Sector Developments

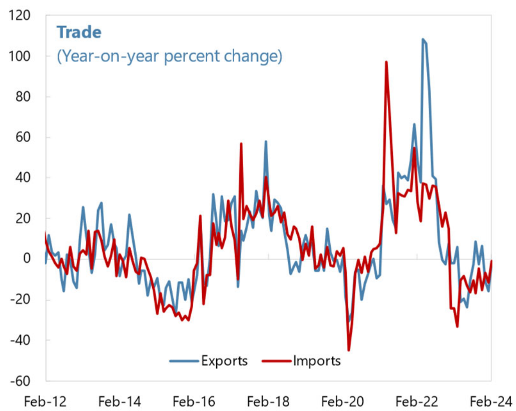
The NEER and REER have recently strengthened.



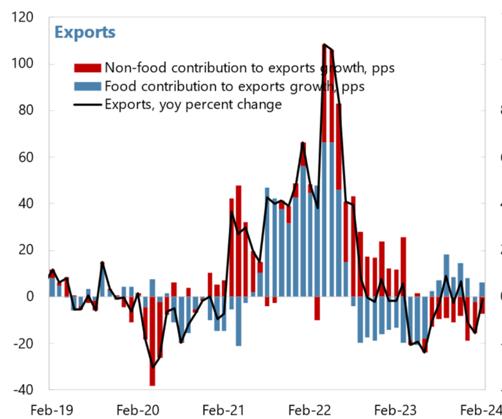
The current account deficit improved in 2023.



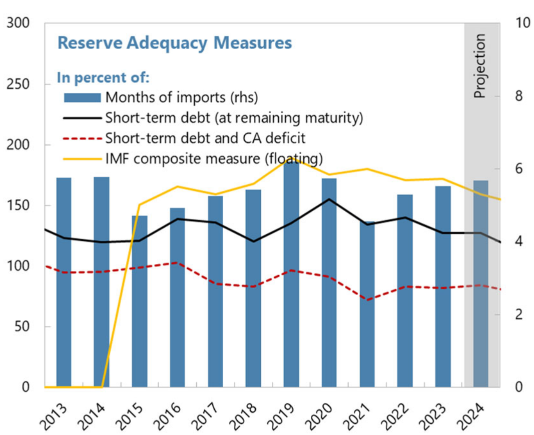
Exports performed strongly in 2022, and moderated in 2023…



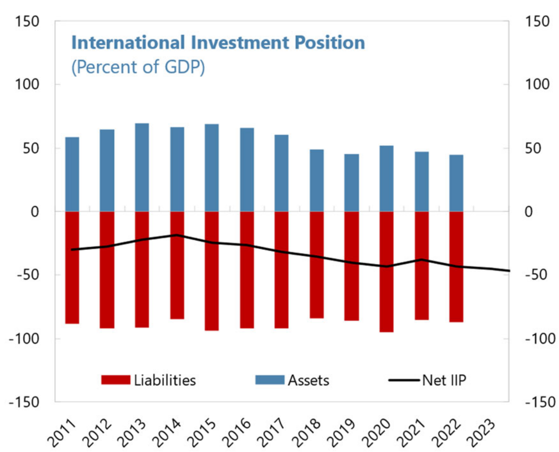
…as the 2022 increase in food exports reversed.



Reserve adequacy metrics remain favorable…



…though net IIP worsened after improving in 2021.



Sources: NBS, NBM, and IMF staff calculations.

Table 1. Moldova: Financing Needs and Sources

	2022	2023	2024
Fiscal, MDL millions			
Fiscal Financing Needs	18,844	24,612	18,102
Budget Sources	6,235	7,729	6,134
Net Domestic Issuance	-433	3,514	3,847
Use of funds in the single Treasury account	5,569	2,616	276
Other Domestic 1/	-2,043	-4,649	-667
External Project Loans 2/	3,142	6,248	2,678
IMF	3,262	3,929	4,902
ECF/EFF: Program	3,262	3,929	4,902
World Bank	3,015	3,996	1,197
DPO: Loan	2,841	1,812	916
DPO: Grant	174	2,184	281
European Commission	2,537	4,242	3,094
DG ECFIN: MFA Loans	710	1,983	1,866
DG ECFIN: MFA Grants	304	716	540
DG NEAR: Budget Support Grants	1,522	1,543	687
Bilateral Support	3,795	4,716	2,775
AFD: Budget Support Loan	304	881	1,412
AFD: Sectoral Support Loan	1,218	0	0
Government of Poland: Budget Support Loan	406	0	0
JICA: Budget Support Loan	0	1,812	0
Government of Romania: Grant	203	0	0
Government of Germany: Grant	812	0	0
Government of United States: Grant	568	1,450	0
Government of Norway: Grant	284	0	0
UNDP	0	573	275
Other Bilateral Support	0	0	1,087
Balance of Payments, USD millions			
BOP financing needs	1234	1861	1122
Reserves drawdown 3/	-572	-979	-490
External financing	662	882	632
IMF 4/	172	217	269
World Bank	159	221	56
DPO: Loan	150	100	40
DPO: Grant	9	120.5	15.5
Bilateral Loans	100	141	125
France - AFD	79	41	65
Government of Poland	21	0	0
Japan - JICA	0	100	0
Other Bilateral Loans	0	0	60
Bilateral Grants	98	107	13
Government of Romania	11	0	0
Government of Germany	42	0	0
Government of United States	30	80	0
Government of Norway	15	0	0
UNDP	0	27	13
European Commission	132	197	170
DG ECFIN: MFA Loans	37	92	102
DG ECFIN: MFA Grants	16	33	30
DG NEAR: Budget Support Grants	79	72	38

Sources: Moldovan authorities; and IMF staff estimates.

1/ Includes amortization of existing foreign project loans, privatization receipts, and some transfers between government bodies.

2/ Financing related to infrastructure projects.

3/ Positive (negative) numbers indicate reserve drawdown (buildup).

4/ Excludes RSF

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)										
Real Sector Indicators											
Gross domestic product											
Real growth rate	3.6	-8.3	13.9	-5.0	0.7	2.6	3.7	4.4	5.0	5.0	5.0
Demand	4.1	-7.5	16.6	-5.1	0.1	3.9	4.4	4.9	5.0	5.0	5.2
Consumption	3.7	-7.9	14.8	-1.4	0.5	3.3	4.0	4.4	4.5	4.5	4.7
Private	-0.9	2.9	17.4	-3.3	-0.5	2.7	3.5	4.2	4.3	4.3	4.5
Public	47.6	16.1	3.0	7.5	6.0	6.0	6.4	5.5	5.5	5.5	5.5
Gross fixed capital formation	12.0	5.6	1.9	-6.4	-1.6	5.8	6.2	6.9	6.7	6.8	7.3
Net Exports of goods and services	-3.8	2.8	-25.6	5.3	1.9	-9.3	-7.7	-7.1	-4.7	-4.7	-6.1
Exports of goods and services	8.2	-14.9	17.5	26.8	5.1	3.7	5.4	6.8	8.2	8.8	8.3
Imports of goods and services	6.2	-9.5	21.2	11.7	2.2	6.0	6.4	7.0	6.8	7.2	7.5
Nominal GDP (billions of Moldovan lei)	206.3	199.7	242.1	275.6	300.4	329.1	360.0	396.6	439.4	486.9	539.5
Nominal GDP (billions of U.S. dollars)	11.7	11.5	13.7	14.6	16.6	18.1	19.6	21.5	23.7	26.2	28.8
Consumer price index (average)	4.8	3.8	5.1	28.6	13.4	5.0	5.0	5.0	5.0	5.0	5.0
Consumer price index (end of period)	7.5	0.4	13.9	30.2	4.2	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	5.3	5.6	6.4	19.8	8.3	6.8	5.5	5.5	5.5	5.5	5.5
Average monthly wage (Moldovan lei)	7,356	8,104	8,619	9,328	10,650	11,475	12,475	13,675	13,675	13,675	13,675
Average monthly wage (U.S. dollars)	419	468	488	493	588	630	681	742	738	734	730
Unemployment rate (annual average, percent)	5.1	3.8	3.3	4.6	4.5	3.5	3.5	3.5	3.5	3.5	3.5
	(Percent of GDP)										
Saving-Investment Balance											
Foreign saving	9.5	7.8	12.4	17.2	11.9	11.2	10.7	10.0	9.7	9.3	8.5
National saving	15.6	14.9	13.3	7.4	11.8	11.6	12.0	12.8	13.3	13.8	14.5
Private	13.4	16.2	12.8	6.8	12.0	13.2	12.3	12.5	12.5	12.3	12.8
Public	2.2	-1.3	0.6	0.6	-0.2	-1.5	-0.3	0.3	0.9	1.5	1.7
Gross investment	25.1	22.7	25.8	24.6	23.7	22.9	22.8	22.8	23.0	23.1	23.0
Private	21.5	19.2	22.4	20.9	19.9	19.5	19.3	19.2	19.1	19.0	18.9
Public	3.6	3.5	3.3	3.7	3.8	3.3	3.4	3.7	3.9	4.0	4.1
Fiscal Indicators (General Government)											
Primary balance	-0.8	-4.7	-2.0	-2.3	-4.4	-4.0	-2.9	-2.8	-2.5	-2.0	-1.8
Overall balance	-1.5	-5.3	-2.6	-5.1	-5.2	-5.0	-3.8	-3.4	-3.1	-2.6	-2.4
Stock of public and publicly guaranteed debt	28.1	35.6	34.6	36.4	36.6	38.6	38.0	37.1	35.9	33.2	30.4
	(Percent change, unless otherwise indicated)										
Financial Indicators											
Broad money (M3)	8.2	19.6	11.3	5.2	18.4	18.0	13.6	13.3	...	...	...
Velocity (GDP/end-period M3; ratio)	2.3	1.9	2.0	2.2	2.1	1.9	1.9	1.8	...	...	...
Reserve money	7.6	18.8	3.4	30.3	9.9	21.9	...	...	...	...	...
Credit to the economy	11.5	10.3	21.0	8.9	2.8	8.2	13.3	11.8	...	...	...
Credit to the economy, percent of GDP	21.4	24.4	24.4	23.3	22.0	21.7	22.5	22.9	...	...	...
	(Millions of U.S. dollars, unless otherwise indicated)										
External Sector Indicators 2/											
Current account balance	-1117	-901	-1699	-2498	-1974	-2026	-2107	-2150	-2296	-2426	-2448
Current account balance (percent of GDP)	-9.5	-7.8	-12.4	-17.2	-11.9	-11.2	-10.7	-10.0	-9.7	-9.3	-8.5
Remittances and compensation of employees (net)	1,729	1,669	1,826	1,519	1,561	1,693	1,862	2,048	2,253	2,478	2,726
Gross official reserves 3/	3,060	3,784	3,902	4,474	5,453	6,009	6,000	6,075	6,253	6,689	7,364
Gross official reserves (months of imports)	6.2	5.7	4.6	5.4	6.4	6.6	6.1	5.7	5.3	5.2	5.3
Exchange rate (Moldovan lei per USD, period average)	17.6	17.3	17.7	18.9	18.1	18.2	18.3	18.4	18.5	18.6	18.7
Exchange rate (Moldovan lei per USD, end of period)	17.2	17.2	17.7	19.2	17.4	18.6	18.7	18.8	18.9	19.0	18.6
Real effective exch.rate (average, percent change)	2.1	5.1	-1.6	11.3	6.2	-7.0	2.1	2.4	2.4	2.4	2.4
External debt (percent of GDP) 4/	61.9	70.0	63.3	66.2	62.2	65.3	67.6	68.3	67.2	65.4	63.0
Debt service (percent of exports of goods and services)	13.4	15.8	11.9	8.8	11.1	12.9	13.3	14.3	13.1	11.1	9.8

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

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

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

4/ Includes private and public and publicly guaranteed debt.

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

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

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-1,117	-901	-1,699	-2,498	-1,974	-2,026	-2,107	-2,150	-2,296	-2,426	-2,448
Merchandise trade balance	-3,312	-3,094	-4,190	-5,193	-4,888	-5,176	-5,643	-6,111	-6,702	-7,398	-8,025
Exports	2,118	1,944	2,562	3,701	3,426	3,504	3,609	3,725	4,034	4,429	4,859
Imports	5,430	5,039	6,752	8,894	8,313	8,680	9,253	9,836	10,736	11,828	12,884
Services balance	365	398	473	908	886	1,019	1,210	1,429	1,664	1,979	2,308
Exports of services	1,544	1,278	1,635	2,279	2,440	2,635	2,951	3,305	3,728	4,250	4,813
Imports of services	1,178	880	1,162	1,371	1,554	1,616	1,741	1,876	2,064	2,270	2,506
Income balance	615	390	267	60	210	438	485	536	587	642	703
Compensation of employees	878	730	787	728	773	817	899	988	1,087	1,196	1,316
Income on direct and portfolio investment	-262	-339	-524	-673	-567	-385	-420	-459	-507	-560	-619
Other income	-2	-1	4	5	3	6	6	6	6	6	6
Current transfer balance	1,214	1,406	1,752	1,727	1,819	1,693	1,842	1,996	2,155	2,352	2,567
Remittances	851	939	1,039	791	788	876	963	1,060	1,166	1,282	1,410
Budget transfers	206	96	105	120	389	124	130	120	100	100	100
Other transfers	157	371	608	816	641	693	749	816	890	970	1,057
Capital and Financial Account Balance	-1,191	-1,239	-1,443	-2,334	-2,647	-2,050	-2,079	-2,285	-2,553	-2,977	-3,276
Capital account balance	-55	-66	-51	20	82	16	17	17	18	19	20
Financial account balance (inflows: "-")	-1,246	-1,304	-1,494	-2,314	-2,566	-2,034	-2,062	-2,268	-2,535	-2,958	-3,256
Foreign direct investment, net (inflows: "-")	-468	-152	-372	-541	-416	-461	-528	-636	-698	-802	-891
Portfolio investment and derivatives, net	-15	1	-5	-1	0	-4	3	3	3	3	3
Other investment, net	-763	-1,153	-1,117	-1,773	-2,149	-1,570	-1,537	-1,635	-1,840	-2,159	-2,368
Loans	-122	-210	-149	-158	-279	-216	101	192	182	87	41
General government, net	1	-100	-66	-26	-268	-88	223	324	314	220	175
Private sector, net	-123	-110	-83	-132	-11	-129	-121	-131	-132	-133	-134
Other capital flows, net	-641	-943	-968	-1,614	-1,870	-1,354	-1,639	-1,828	-2,022	-2,246	-2,410
Errors and omissions	22	62	18	24	54	0	0	0	0	0	0
Overall Balance	97	400	-238	-139	728	24	-28	135	257	551	829
Financing	-97	-400	238	139	-728	-24	28	-135	-257	-551	-829
Gross international reserves (increase: "+")	281	386	206	637	891	459	-15	75	177	436	676
Use of Fund credit, net (excl. RSF)	-36	186	-10	141	161	167	-17	-60	-80	-115	-153
Monetary authorities	-37	-43	-61	-21	-11	-17	-20	-29	-43	-58	-67
Purchases	18	7	0	0	0	0	0	0	0	0	0
Repurchases	55	50	61	21	11	17	20	29	43	58	67
General government	1	229	51	162	173	184	3	-30	-37	-57	-86
Purchases	28	254	81	172	217	269	60	0	0	0	0
Repurchases	26	25	30	10	44	85	56	30	37	57	86
Exceptional financing	24	161	77	211	341	267	29	0	0	0	0
European Commission	22	83	53	37	97	102	0	0	0	0	0
World Bank	1	54	0	150	100	40	0	0	0	0	0
Other official bilateral donors	0	24	24	24	143	125	29	0	0	0	0
	(Percent of GDP, unless otherwise indicated)										
Memorandum Items:											
Gross official reserves (millions of U.S. dollars) 2/	3,060	3,784	3,902	4,474	5,453	5,912	5,896	5,972	6,149	6,585	7,260
Months of imports of good and services	6.2	5.7	4.6	5.4	6.4	6.5	6.0	5.6	5.2	5.1	5.2
Percent of short term debt and CA deficit	96.7	91.5	72.3	86.5	98.8	99.7	90.8	83.9	85.2	93.0	159.0
Pct of short-term debt at remaining maturity	135.2	155.3	134.4	140.0	156.1	154.6	135.8	124.0	128.3	142.1	159.0
Pct of the IMF composite measure (floating) 3/	168.0	189.1	175.6	180.1	199.8	197.5	180.8	166.1	162.6	164.4	171.0
Gross official reserves, incl. RSF (millions of U.S. dollars)	3,060	3,784	3,902	4,474	5,453	6,010	5,967	5,972	6,149	6,585	7,260
Current account balance	-9.5	-7.8	-12.4	-17.2	-11.9	-11.2	-10.7	-10.0	-9.7	-9.3	-8.5
Goods and services trade balance	-25.1	-23.4	-27.1	-29.4	-24.1	-23.0	-22.6	-21.7	-21.2	-25.7	-24.7
Export of goods and services	31.2	27.9	30.7	41.1	35.4	34.0	33.4	32.7	32.7	33.2	33.6
Import of goods and services	56.3	51.3	57.8	70.6	59.5	57.0	56.0	54.4	53.9	58.9	58.3
Foreign direct investment balance	4.0	1.3	2.7	3.7	2.5	2.5	2.7	3.0	2.9	3.1	3.1
	(Percent change of amounts in U.S.dollars, unless otherwise indicated)										
Exports of goods	7.2	-8.2	31.8	44.5	-7.5	2.3	3.0	3.2	8.3	9.8	9.7
Exports of services	4.5	-17.2	28.0	39.4	7.0	8.0	12.0	12.0	12.8	14.0	13.3
Imports of goods	3.0	-7.2	34.0	31.7	-6.5	4.4	6.6	6.3	9.1	10.2	8.9
Imports of services	5.1	-25.4	32.1	17.9	13.4	4.0	7.7	7.8	10.0	10.0	10.4
Remittances and compensation	14.7	14.5	13.3	10.4	9.4	9.4	9.5	9.5	9.5	9.5	9.5
Debt service (pct of exports of goods and services)	13.4	15.8	11.9	8.8	11.1	12.9	13.3	14.3	13.1	11.1	9.8

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

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

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

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

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

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-9.5	-7.8	-12.4	-17.2	-11.9	-11.2	-10.7	-10.0	-9.7	-9.3	-8.5
Merchandise trade balance	-28.2	-26.8	-30.6	-35.7	-29.5	-28.7	-28.7	-28.4	-28.2	-28.3	-27.8
Exports	18.0	16.9	18.7	25.4	20.7	19.4	18.4	17.3	17.0	16.9	16.9
Imports	46.3	43.7	49.3	61.1	50.2	48.1	47.1	45.7	45.2	45.2	44.7
Services balance	3.1	3.5	3.5	6.2	5.3	5.6	6.2	6.6	7.0	7.6	8.0
Exports of services	13.2	11.1	11.9	15.7	14.7	14.6	15.0	15.4	15.7	16.3	16.7
Imports of services	10.0	7.6	8.5	9.4	9.4	8.9	8.9	8.7	8.7	8.7	8.7
Income balance	5.2	3.4	1.9	0.4	1.3	2.4	2.5	2.5	2.5	2.5	2.4
Compensation of employees	7.5	6.3	5.7	5.0	4.7	4.5	4.6	4.6	4.6	4.6	4.6
Income on direct and portfolio investment	-2.2	-2.9	-3.8	-4.6	-3.4	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current transfer balance	10.3	12.2	12.8	11.9	11.0	9.4	9.4	9.3	9.1	9.0	8.9
Remittances	7.3	8.1	7.6	5.4	4.8	4.8	4.9	4.9	4.9	4.9	4.9
Budget transfers	1.8	0.8	0.8	0.8	2.3	0.7	0.7	0.6	0.4	0.4	0.3
Other transfers	1.3	3.2	4.4	5.6	3.9	3.8	3.8	3.8	3.7	3.7	3.7
Capital and Financial Account Balance	-10.1	-10.7	-10.5	-16.0	-16.0	-11.4	-10.6	-10.6	-10.8	-11.4	-11.4
Capital account balance	-0.5	-0.6	-0.4	0.1	0.5	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance	-10.6	-11.3	-10.9	-15.9	-15.5	-11.3	-10.5	-10.5	-10.7	-11.3	-11.3
Foreign direct investment, net (inflows: "-")	-4.0	-1.3	-2.7	-3.7	-2.5	-2.5	-2.7	-3.0	-2.9	-3.1	-3.1
Portfolio investment and derivatives, net	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-6.5	-10.0	-8.2	-12.2	-13.0	-8.7	-7.8	-7.6	-7.8	-8.3	-8.2
Loans	-1.0	-1.8	-1.1	-1.1	-1.7	-1.2	0.5	0.9	0.8	0.3	0.1
General government, net	0.0	-0.9	-0.5	-0.2	-1.6	-0.5	1.1	1.5	1.3	0.8	0.6
Private sector, net	-1.1	-1.0	-0.6	-0.9	-0.1	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5
Other capital flows, net	-5.5	-8.2	-7.1	-11.1	-11.3	-7.5	-8.3	-8.5	-8.5	-8.6	-8.4
Errors and omissions	0.2	0.5	0.1	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	0.8	3.5	-1.7	-1.0	4.4	0.1	-0.1	0.6	1.1	2.1	2.9
Financing	-0.8	-3.5	1.7	1.0	-4.4	-0.1	0.1	-0.6	-1.1	-2.1	-2.9
Gross international reserves (increase: "+")	2.4	3.3	1.5	4.4	5.4	2.5	-0.1	0.3	0.7	1.7	2.3
Use of Fund credit, net	-0.3	1.6	-0.1	1.0	1.0	0.9	-0.1	-0.3	-0.3	-0.4	-0.5
Monetary authorities	-0.3	-0.4	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Purchases	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.5	0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
General government	0.0	2.0	0.4	1.1	1.0	1.0	0.0	-0.1	-0.2	-0.2	-0.3
Purchases	0.2	2.2	0.6	1.2	1.3	1.5	0.3	0.0	0.0	0.0	0.0
Repurchases	0.2	0.2	0.2	0.1	0.3	0.5	0.3	0.1	0.2	0.2	0.3
Exceptional financing	0.2	1.4	0.6	1.5	2.1	1.5	0.1	0.0	0.0	0.0	0.0
o/w											
European Commission	0.2	0.7	0.4	0.3	0.6	0.6	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	0.5	0.0	1.0	0.6	0.2	0.0	0.0	0.0	0.0	0.0
Other official bilateral donors	0.0	0.2	0.2	0.2	0.9	0.7	0.1	0.0	0.0	0.0	0.0
Memorandum Items:											
Gross official reserves (millions of U.S. dollars) 2/	3,060	3,784	3,902	4,474	5,453	5,912	5,896	5,972	6,149	6,585	7,260
Months of imports of good and services	6.2	5.7	4.6	5.4	6.4	6.5	6.0	5.6	5.2	5.1	5.2
Percent of short term debt and CA deficit	96.7	91.5	72.3	86.5	98.8	99.7	90.8	83.9	85.2	93.0	159.0
Pct of short-term debt at remaining maturity	135.2	155.3	134.4	140.0	156.1	154.6	135.8	124.0	128.3	142.1	159.0
Pct of the IMF composite measure (floating) 3/	168.0	189.1	175.6	180.1	199.8	197.5	180.8	166.1	162.6	164.4	171.0
Gross official reserves, incl. RSF (millions of U.S. dollars) 2/	3,060	3,784	3,902	4,474	5,453	6,010	5,967	5,972	6,149	6,585	7,260
Current account balance	-9.5	-7.8	-12.4	-17.2	-11.9	-11.2	-10.7	-10.0	-9.7	-9.3	-8.5
Goods and services trade balance	-25.1	-23.4	-27.1	-29.4	-24.1	-23.0	-22.6	-21.7	-21.2	-25.7	-24.7
Export of goods and services	31.2	27.9	30.7	41.1	35.4	34.0	33.4	32.7	32.7	33.2	33.6
Import of goods and services	56.3	51.3	57.8	70.6	59.5	57.0	56.0	54.4	53.9	58.9	58.3
Foreign direct investment balance	4.0	1.3	2.7	3.7	2.5	2.5	2.7	3.0	2.9	3.1	3.1
(Percent change of amounts in U.S.dollars, unless otherwise indicated)											
Exports of goods	7.2	-8.2	31.8	44.5	-7.5	2.3	3.0	3.2	8.3	9.8	9.7
Exports of services	4.5	-17.2	28.0	39.4	7.0	8.0	12.0	12.0	12.8	14.0	13.3
Imports of goods	3.0	-7.2	34.0	31.7	-6.5	4.4	6.6	6.3	9.1	10.2	8.9
Imports of services	5.1	-25.4	32.1	17.9	13.4	4.0	7.7	7.8	10.0	10.0	10.4
Remittances and compensation	14.7	14.5	13.3	10.4	9.4	9.4	9.5	9.5	9.5	9.5	9.5
Remittances	4.5	10.3	10.6	-23.9	-0.3	11.1	10.0	10.0	10.0	10.0	10.0
Compensation of employees	2.8	-16.8	7.8	-7.5	6.2	5.7	10.0	10.0	10.0	10.0	10.0
Debt service (pct of exports of goods and services)	13.4	15.8	11.9	8.8	11.1	12.9	13.3	14.3	13.1	11.1	9.8

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

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

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

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

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

(Millions of Moldovan lei, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029
					Est.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and Grants	62,949	62,655	77,378	91,481	102,299	107,172	106,717	117,393	133,118	148,586	164,984	183,998
Revenues	61,347	62,006	74,931	86,966	95,557	105,168	104,365	115,628	131,162	146,528	162,811	181,693
Tax revenues	58,458	58,987	71,233	82,447	90,634	100,372	99,569	110,445	125,517	140,342	156,006	174,172
Personal income	3,970	4,166	5,134	5,997	7,233	7,862	7,862	8,600	9,475	10,497	11,669	13,028
Corporate income	5,365	5,123	6,009	8,729	9,422	9,605	9,355	10,033	13,830	15,322	17,033	19,016
Property tax	580	582	756	755	794	813	813	889	980	1,085	1,207	1,347
VAT	20,183	19,775	25,509	29,057	30,209	34,176	33,623	38,520	43,268	49,216	54,709	61,079
Excises	6,222	6,469	7,608	8,013	10,138	10,457	10,457	11,571	12,979	14,380	15,985	17,847
Foreign trade	1,798	1,739	2,253	2,732	2,812	2,526	2,526	2,763	3,044	3,373	3,749	4,186
Other	1,935	1,898	2,125	2,242	1,004	2,987	2,987	3,267	3,600	3,988	4,433	4,950
Social Fund contributions	13,636	14,296	16,224	18,573	21,524	23,714	23,714	25,797	28,421	31,489	35,004	39,080
Health Fund contributions	4,768	4,940	5,615	6,350	7,498	8,232	8,232	9,004	9,920	10,991	12,218	13,641
Non-tax revenues	2,889	3,018	3,698	4,519	4,924	4,796	4,796	5,183	5,645	6,186	6,805	7,521
NBM profit transfers	0	218	407	147	0	0	0	0	0	0	0	0
Grants	1,603	650	2,447	4,515	6,742	2,004	2,352	1,765	1,955	2,058	2,173	2,305
Budget support	1,235	316	2,014	3,882	5,782	1,436	1,784	1,059	1,173	1,235	1,304	1,383
Project	368	334	434	633	960	568	568	706	782	823	869	922
Expenditure and Net Lending	65,972	73,275	83,714	100,374	117,871	122,962	123,310	131,073	146,603	162,208	177,645	196,947
Current expenditure	58,975	65,687	76,151	89,921	105,996	112,429	112,027	118,481	131,738	144,641	157,560	174,494
Wages	15,649	17,214	18,776	21,400	25,514	27,549	27,549	29,520	32,523	36,033	39,930	44,243
Goods and services	12,080	13,276	16,683	18,601	20,295	22,339	22,089	23,403	25,884	27,156	30,093	33,344
Interest payments	1,641	1,707	1,941	2,736	5,436	5,280	5,280	6,089	6,058	6,334	6,781	7,087
Domestic	1,213	1,333	1,550	2,163	3,972	2,906	2,906	4,479	5,097	5,364	5,833	6,126
Foreign	428	374	391	574	1,465	2,374	2,374	1,610	961	970	948	961
Transfers	24,616	28,848	33,467	43,777	49,563	49,797	50,097	52,640	57,280	63,092	69,113	76,696
Transfers to economy 1/	2,316	3,840	5,280	6,033	5,061	5,301	5,301	5,798	6,388	7,014	7,772	8,612
Transfers to households	22,301	25,008	28,187	37,744	44,501	44,496	44,796	46,842	50,892	56,078	61,341	68,084
Other current expenditure	4,989	4,642	5,285	3,406	5,188	7,464	7,012	6,828	9,993	12,025	11,642	13,124
Capital expenditure	6,997	7,588	7,563	10,454	11,876	10,533	11,283	12,592	14,864	17,567	20,085	22,453
One-off revenue and expenditure items 2/	0	0	0	-5083	0	0	0	0	0	0	0	0
Overall Balance (incl. one-off items)	-3,023	-10,620	-6,335	-13,976	-15,572	-15,790	-16,593	-13,680	-13,485	-13,622	-12,661	-12,949
Overall balance (excl. one-off items)	-3,023	-10,620	-6,335	-8,893	-15,572	-15,790	-16,593	-13,680	-13,485	-13,622	-12,661	-12,949
Primary balance (excl. one-off items)	-1,595	-9,469	-4,843	-6,300	-13,328	-12,416	-13,219	-10,456	-11,114	-10,922	-9,580	-9,466
Financing (excl. one-off items)	2,125	3,865	-285	1,370	3,803	7,876	6,228	12,584	13,485	13,622	12,661	12,949
Budget financing	2,902	2,250	-4,687	-5,230	1,883	9,032	6,884	13,849	14,187	14,823	14,762	15,990
Central government	2,984	1,833	-4,413	-4,483	1,834	8,961	6,813	13,849	14,187	14,823	14,762	15,990
Net domestic 3/	1,701	1,856	-4,688	-4,483	-1,216	2,867	1,719	12,067	13,887	14,523	14,462	15,690
Net foreign (excl. project loans, incl. RSF)	85	151	138	0	1,525	4,085	3,585	1,632	150	150	150	150
Privatization	85	151	138	0	1,525	2,010	1,510	150	150	150	150	150
Others	1,112	-325	0	0	0	0	0	0	0	0	0	0
Local governments	211	0	-227	-20	49	71	71	0	0	0	0	0
Privatization	2	0	0	0	0	0	0	0	0	0	0	0
Social Fund	-146	0	-60	-51	0	0	0	0	0	0	0	0
Health Fund	-147	417	12	-676	0	0	0	0	0	0	0	0
Net project loans	1,613	3,047	2,855	3,111	6,225	9,645	9,645	2,884	3,178	3,163	3,146	3,127
Of which: Onlending (through commercial banks)	-113	-649	-651	-31	-287	3,808	3,808	-127	-140	-155	-171	-190
Financing Gap	898	6,754	6,620	7,523	11,769	7,914	10,365	1,095	0	0	0	0
World Bank	24	930	0	2,841	1,812	729	729	0	0	0	0	0
IMF	483	4,393	1,439	3,262	3,929	2,451	4,902	1,095	0	0	0	0
Others 4/	391	1,431	5,181	1,420	6,027	4,734	4,734	0	0	0	0	0
Financing for one-off items												
Government securities issued	0	0	0	0	0	0	0	0	0	0	0	0
					(Millions of Moldovan lei)							
Memorandum Items:												
Public and publicly guaranteed debt	57,989	71,072	83,665	100,328	110,068	128,565	126,966	136,970	147,099	157,567	161,819	163,782

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

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

2/ Includes banking sector resolution costs in 2016, and recapitalization of Energocom in 2022.

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

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

Table 4b. Moldova: General Government Budget, 2019–2029
(Percent of GDP, unless otherwise stated)

	2019	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029
					Est.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and Grants	30.5	31.4	32.0	33.2	34.1	32.6	32.4	32.6	33.6	33.8	33.9	34.1
Revenues	29.7	31.0	31.0	31.6	31.8	32.0	31.7	32.1	33.1	33.3	33.4	33.7
Tax revenues	28.3	29.5	29.4	29.9	30.2	30.5	30.3	30.7	31.6	31.9	32.0	32.3
Personal income	1.9	2.1	2.1	2.2	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Corporate income	2.6	2.6	2.5	3.2	3.1	2.9	2.8	2.8	3.5	3.5	3.5	3.5
Property tax	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
VAT	9.8	9.9	10.5	10.5	10.1	10.4	10.2	10.7	10.9	11.2	11.2	11.3
Excises	3.0	3.2	3.1	2.9	3.4	3.2	3.2	3.2	3.3	3.3	3.3	3.3
Foreign trade	0.9	0.9	0.9	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other	0.9	1.0	0.9	0.8	0.3	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Social Fund contributions	6.6	7.2	6.7	6.7	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2
Health Fund contributions	2.3	2.5	2.3	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Non-tax revenues	1.4	1.5	1.5	1.6	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.4
NBM profit transfers	0.0	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.8	0.3	1.0	1.6	2.2	0.6	0.7	0.5	0.5	0.5	0.4	0.4
Budget support	0.6	0.2	0.8	1.4	1.9	0.4	0.5	0.3	0.3	0.3	0.3	0.3
Project	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Expenditure and Net Lending	32.0	36.7	34.6	36.4	39.2	37.4	37.5	36.4	37.0	36.9	36.5	36.5
Current expenditure	28.6	32.9	31.5	32.6	35.3	34.2	34.0	32.9	33.2	32.9	32.4	32.3
Wages	7.6	8.6	7.8	7.8	8.5	8.4	8.4	8.2	8.2	8.2	8.2	8.2
Goods and services	5.9	6.6	6.9	6.8	6.8	6.8	6.7	6.5	6.5	6.2	6.2	6.2
Interest payments	0.8	0.9	0.8	1.0	1.8	1.6	1.6	1.7	1.5	1.4	1.4	1.3
Domestic	0.6	0.7	0.6	0.8	1.3	0.9	0.9	1.2	1.3	1.2	1.2	1.1
Foreign	0.2	0.2	0.2	0.2	0.5	0.7	0.7	0.4	0.2	0.2	0.2	0.2
Transfers	11.9	14.4	13.8	15.9	16.5	15.1	15.2	14.6	14.4	14.4	14.2	14.2
Transfers to economy 1/	1.1	1.9	2.2	2.2	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Transfers to households	10.8	12.5	11.6	13.7	14.8	13.5	13.6	13.0	12.8	12.8	12.6	12.6
Other current expenditure	2.4	2.3	2.2	1.2	1.7	2.3	2.1	1.9	2.5	2.7	2.4	2.4
Capital expenditure	3.4	3.8	3.1	3.8	4.0	3.2	3.4	3.5	3.7	4.0	4.1	4.2
One-off revenue and expenditure items 2/	0.0	0.0	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (incl. one-off items)	-1.5	-5.3	-2.6	-5.1	-5.2	-4.8	-5.0	-3.8	-3.4	-3.1	-2.6	-2.4
Overall balance (excl. one-off items)	-1.5	-5.3	-2.6	-3.2	-5.2	-4.8	-5.0	-3.8	-3.4	-3.1	-2.6	-2.4
Primary balance (excl. one-off items)	-0.8	-4.7	-2.0	-2.3	-4.4	-3.8	-4.0	-2.9	-2.8	-2.5	-2.0	-1.8
Financing (excl. one-off items)	1.0	1.9	-0.1	0.5	1.3	2.4	1.9	3.5	3.4	3.1	2.6	2.4
Budget financing	1.4	1.1	-1.9	-1.9	0.6	2.7	2.1	3.8	3.6	3.4	3.0	3.0
Central government	1.4	0.9	-1.8	-1.6	0.6	2.7	2.1	3.8	3.6	3.4	3.0	3.0
Net domestic 3/	0.8	0.9	-1.9	-1.6	-0.4	0.9	0.5	3.4	3.5	3.3	3.0	2.9
Net foreign (excl. project loans)	0.0	0.1	0.1	0.0	0.5	1.2	1.1	0.5	0.0	0.0	0.0	0.0
Privatization	0.0	0.1	0.1	0.0	0.5	0.6	0.5	0.0	0.0	0.0	0.0	0.0
Others	0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Fund	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health Fund	-0.1	0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net project loans	0.8	1.5	1.2	1.1	2.1	2.9	2.9	0.8	0.8	0.7	0.6	0.6
Of which: Onlending (through commercial banks)	-0.1	-0.3	-0.3	0.0	-0.1	1.2	1.2	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.4	3.4	2.7	2.7	3.9	2.4	3.1	0.3	0.0	0.0	0.0	0.0
World Bank	0.0	0.5	0.0	1.0	0.6	0.2	0.2	0.0	0.0	0.0	0.0	0.0
IMF	0.2	2.2	0.6	1.2	1.3	0.7	1.5	0.3	0.0	0.0	0.0	0.0
Others 4/	0.2	0.7	2.1	0.5	2.0	1.4	1.4	0.0	0.0	0.0	0.0	0.0
Financing for one-off items												
Government securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:												
Public and publicly guaranteed debt	28.1	35.6	34.6	36.4	36.6	39.1	38.6	38.0	37.1	35.9	33.2	30.4

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

1/ As of 2016, capital transfers are excluded from transfers to economy and recorded under capital expenditure.
2/ Includes banking sector resolution costs in 2016, and recapitalization of Energocom in 2022.
3/ Net domestic financing in 2024 and 2025 is lower than what it would have been without RSF disbursements
4/ Includes SDR allocation in 2021 (about US$236 million).

Table 5. Moldova: Accounts of the National Bank of Moldova and Depository Corporations Survey, 2017–2024

(Millions of Moldovan lei, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024
								Proj.
National Bank of Moldova								
Net foreign assets 1/	42,153	45,700	47,526	62,701	67,592	84,470	93,898	108,724
NFA (convertible)	43,045	46,855	48,513	62,700	67,598	84,483	93,926	108,715
Gross reserves	47,936	51,345	52,654	65,132	69,240	85,716	94,918	109,707
Reserve liabilities	4,891	4,490	4,141	2,433	1,642	1,233	993	992
Net domestic assets	-5,156	-2,143	-675	-7,062	-10,044	-9,491	-11,527	-8,297
Net claims on general government	7,964	7,956	9,347	4,758	192	5,503	3,502	3,444
Credit to banks	-9,217	-6,299	-5,403	-6,383	-3,704	-6,617	-11,180	-5,869
Other items (net)	-3,903	-3,800	-4,619	-5,436	-6,533	-8,377	-3,849	-5,872
Reserve money	36,997	43,557	46,851	55,639	57,548	74,980	82,371	100,426
Currency in circulation	19,053	21,077	22,953	29,819	31,699	34,406	38,554	44,738
Banks' reserves	17,240	22,315	23,860	25,808	25,811	40,125	43,652	55,688
Required reserves	16,266	18,656	20,518	23,010	23,247	37,726	40,537	52,623
Other reserves	974	3,659	3,342	2,798	2,564	2,399	3,114	3,065
Monetary Survey								
Net foreign assets	67,877	71,780	74,503	89,983	97,303	102,741	117,580	134,056
NFA (convertible)	61,871	65,793	68,481	82,939	90,658	96,966	111,560	127,736
Of which: commercial banks	18,826	18,938	19,968	20,240	23,061	12,482	17,634	19,021
Foreign assets of commercial banks	23,237	22,641	23,342	23,788	27,094	19,536	24,128	25,373
Foreign liabilities of commercial banks	-4,411	-3,703	-3,374	-3,548	-4,034	-7,054	-6,494	-6,353
NFA (non-convertible)	6,006	5,987	6,022	7,044	6,645	5,776	6,020	6,321
Net domestic assets	9,233	11,378	15,448	17,641	22,457	23,277	31,601	41,979
Net claims on general government	11,455	12,353	13,438	14,142	11,264	13,898	17,678	22,619
Credit to economy	38,101	39,656	44,207	48,744	58,996	64,272	66,098	71,535
Moldovan lei	21,657	22,779	27,302	31,139	40,713	41,688	46,329	49,454
Foreign exchange	16,445	16,878	16,905	17,605	18,283	22,583	19,768	22,081
in U.S. dollars	962	985	982	1,023	1,030	1,179	1,136	1,187
Other items (net)	-40,323	-40,631	-42,198	-45,245	-47,803	-54,893	-52,175	-52,175
Broad money (M3)	77,110	83,159	89,951	107,625	119,760	126,018	149,181	176,036
Broad money (M2: excluding FCD)	53,043	58,334	63,137	75,891	83,080	90,971	110,032	128,216
Currency in circulation	19,053	21,077	22,953	29,819	31,699	34,406	38,554	44,738
Total deposits	58,003	62,081	66,997	77,806	88,062	91,612	103,249	131,297
Domestic currency deposits	33,937	37,257	40,184	46,072	51,382	56,565	64,101	83,478
Foreign currency deposits (FCD)	24,067	24,824	26,814	31,734	36,680	35,047	39,148	47,819
in U.S. dollars	1,407	1,448	1,558	1,843	2,067	1,829	2,249	2,571
Memorandum Items:								
Reserve money growth (percent change; annual)	11.2	17.7	7.6	18.8	3.4	30.3	9.9	21.9
Broad money growth (percent change; annual)	9.4	7.8	8.2	19.6	11.3	5.2	18.4	18.0
Credit to economy (percent change, annual)	-3.4	4.1	11.5	10.3	21.0	8.9	2.8	8.2
in lei	0.0	5.2	19.9	14.1	30.7	2.4	11.1	6.7
in foreign exchange ($ equivalent)	8.0	2.4	-0.2	4.1	0.7	14.4	-3.7	4.5
Gross international reserves (millions of U.S. dollars)	2,803	2,995	3,060	3,784	3,902	4,474	5,453	5,898
Percent of domestic-currency broad money	90	88	83	86	83	94	86	86
Broad money multiplier	2.1	1.9	1.9	1.9	2.1	1.7	1.8	1.8

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

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

Table 6. Moldova: Financial Soundness Indicators, 2017–2023

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

	2017	2018	2019	2020	2021				2022				2023			
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Size																
Number of banks	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11
Total bank assets (billions of lei)	79.5	83.2	90.7	103.8	104.5	109.7	113.8	118.5	118.27	120.41	125.00	131.44	138.27	144.45	144.86	153.93
Total bank loans (percent of GDP)	22.26	18.66	19.19	22.12	19.28	20.64	22.06	23.30	21.30	22.08	22.10	22.61	20.35	20.63	20.74	21.27
Total bank assets (percent of GDP)	52.90	43.76	43.11	50.28	43.22	45.34	47.04	49.01	43.39	44.18	45.86	48.23	46.03	48.08	48.22	51.24
Capital adequacy																
Total regulatory capital (billions of lei)	10.5	10.8	11.4	13.6	13.5	14.4	14.5	15.2	15.32	17.66	17.83	18.39	18.27	20.71	20.52	20.95
Capital adequacy ratio	31.0	26.52	24.82	27.27	26.62	26.84	26.12	25.87	25.66	29.30	29.77	29.49	28.95	31.83	30.96	29.95
Liquidity																
Liquid assets (billions of lei)	44.1	45.4	45.9	*52.4*	52.7	54.8	55.3	57.6								
Total deposits (billions of lei)	59.9	63.5	68.4	*79.6*	79.1	82.9	86.5	90.1	83.92	85.79	87.98	94.97	100.15	106.55	105.97	113.86
Liquidity ratio (liquid assets in percent of total deposits)	73.68	71.57	67.11	65.85	66.62	66.02	63.97	63.90								
Liquid assets in total assets	55.48	54.62	50.59	*50.56*	50.39	49.93	48.62	48.56								
Liquidity reserves (billions of lei)									17.20	18.27	17.40	25.62	29.84	31.47	28.23	34.09
Liquidity coverage ratio (LCR, %)									258.6	223.7	173.6	267.9	253.45	255.31	266.84	282.30
Asset quality																
Gross loans (billions of lei)	33.5	35.5	40.4	*45.6*	46.6	49.9	53.4	56.4	58.07	60.19	60.23	61.63	61.12	61.99	62.30	63.90
Nonperforming loans (billions of lei)	6.2	4.4	3.4	3.4	3.4	3.7	3.6	3.5	4.10	4.05	3.91	3.97	3.96	4.41	4.20	3.55
Substandard	1.9	1.5	1.4	1.2	1.2	1.6	1.6	1.5	2.15	2.03	1.91	1.87	2.01	2.63	2.34	1.88
Doubtful	1.4	1.0	0.5	0.7	0.7	0.8	0.6	0.5	0.64	0.67	0.68	0.83	0.64	0.67	0.71	0.66
Loss	2.8	2.0	1.5	1.5	1.4	1.4	1.4	1.4	1.31	1.36	1.32	1.27	1.31	1.11	1.14	1.01
Loan loss provisions (billions of lei)	5.0	3.8	3.2	3.4	3.4	3.5	3.6	3.6	3.77	3.90	3.78	3.91	3.87	3.95	3.98	3.76
Nonperforming loans as a share of total loans	18.38	12.54	8.49	7.38	7.23	7.49	6.83	6.14	7.07	6.73	6.50	6.44	6.48	7.11	6.74	5.55
Substandard	5.72	4.20	3.55	2.71	2.63	3.23	3.03	2.71	3.71	3.37	3.17	3.04	3.29	4.24	3.76	2.94
Doubtful	4.23	2.80	1.15	1.45	1.55	1.54	1.10	0.88	1.11	1.11	1.13	1.34	1.05	1.08	1.15	1.03
Loss	8.43	5.54	3.80	3.22	3.05	2.72	2.70	2.55	2.25	2.25	2.20	2.06	2.15	1.79	1.83	1.58
Provisions to non-performing loans	80.61	86.59	93.72	101.03	101.39	94.85	99.13	104.15	91.82	96.40	96.61	98.54	97.69	89.51	94.92	106.03
Loan-loss provisioning/gross loans	14.81	10.86	7.96	7.46	7.33	7.10	6.77	6.39	6.49	6.49	6.28	6.35	6.33	6.37	6.39	5.89
Profitability																
Return on equity	11.1	11.6	14.64	8.74	9.27	9.83	11.98	12.36	15.97	15.91	18.09	16.87	22.06	19.57	17.91	16.20
Return on assets	1.8	1.9	2.48	1.51	1.55	1.64	1.96	2.02	2.71	2.65	3.05	2.86	3.80	3.37	3.08	2.78
Foreign currency assets and liabilities																
Total liabilities (billions of lei)	65.9	68.9	74.3	85.9	86.3	90.9	94.9	99.1	97.92	99.21	102.59	108.13	113.54	119.53	118.99	127.29
Foreign currency liabilities (billions of lei)	29.1	29.0	31.2	36.9	36.7	38.29	40.65	42.46	42.26	42.61	42.68	44.59	43.27	44.53	45.70	48.11
Foreign currency denominated liabilities in total liabilities	44.07	42.13	42.07	42.91	42.51	42.11	42.82	42.85	43.16	42.95	41.60	41.24	38.11	37.25	38.40	37.80
Foreign currency denominated assets (billions lei)	29.3	28.9	31.2	36.9	36.5	38.15	40.78	42.43	42.21	42.70	42.98	45.19	43.76	44.43	45.92	48.36
Foreign currency denominated assets in total assests	36.82	34.71	34.40	35.53	34.91	34.79	35.84	35.79	35.69	35.46	34.39	34.38	31.65	30.76	31.70	31.41
Foreign currency deposits in total deposits	42.79	41.14	40.97	41.83	41.39	41.29	42.41	42.61	37.32	43.49	42.31	39.96	36.59	35.89	37.37	36.85
Foreign currency denominated loans in total loans	41.66	38.48	33.34	30.48	29.37	28.21	27.18	26.51	25.52	25.92	28.13	30.48	30.06	29.24	27.70	25.84

Source: National Bank of Moldova.

Table 7. Moldova: External Finance Requirements and Sources, 2016–2025
(Millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
									Proj.	
Gross Financing Requirement 1/	528	795	1,545	1,511	1,296	1,943	2,913	2,453	2,570	2,694
of which: fiscal financing requirements	154	139	73	51	387	375	397	649	569	60
Identified Financing Sources	847	1,132	1,683	1,431	1,497	1,887	2,889	2,449	2,396	2,590
Change in Gross Reserves (increase = +)	531	531	236	60	637	206	637	891	459	-15
Financing Gap	212	193	98	141	437	262	662	896	632	89
Official Financing	212	193	98	141	437	262	662	896	632	89
Identified program financing	177	150	65	94	182	181	490	679	363	29
European Commission	47	36	0	93	104	171	132	208	170	0
World Bank	62	5	60	1	54	0	159	221	56	0
Other bilateral donors	68	108	5	0	24	10	198	250	138	29
Fund Program (excl. RSF)	35	44	33	46	255	81	172	217	269	60
Memorandum items										
RSF disbursements									99	71

Sources: Moldovan authorities and IMF staff projections.

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

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

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund Obligations Based on Existing Credit (millions of SDRs)																									
Principal	76.5	57.0	44.5	59.5	79.1	82.8	69.8	62.8	42.5	20.6	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest 1/	28.5	25.1	23.8	22.5	20.7	18.6	16.7	14.9	13.2	12.0	11.6	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)																									
Principal	76.5	57.0	44.5	59.5	85.9	113.0	109.8	105.6	85.4	63.4	35.8	15.2	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	11.3	3.8	0.0	0.0	0.0
GRA	71.1	43.1	24.4	31.3	48.1	68.2	66.8	66.0	56.1	45.3	24.6	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	5.4	13.9	20.1	28.1	37.8	44.8	43.0	39.6	29.3	18.1	9.5	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	9.2	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	11.3	3.8	0.0	0.0	0.0
Charges and interest 1/	34.1	41.9	41.8	40.0	37.7	33.8	30.2	26.8	23.5	20.8	18.7	17.6	17.0	16.4	15.8	15.1	14.5	13.9	13.3	12.6	12.0	11.6	11.5	11.5	11.5
Total Obligations Based on Existing and Prospective Credit																									
Millions of SDRs	110.6	98.9	86.3	99.4	123.6	146.8	140.0	132.5	108.9	84.2	54.5	32.9	30.0	29.3	28.7	28.1	27.5	26.8	26.2	25.6	23.3	15.4	11.5	11.5	11.5
Millions of U.S. dollars	154.4	138.4	121.2	139.7	173.7	206.2	196.7	186.1	153.0	118.3	76.6	46.2	42.1	41.2	40.3	39.5	38.6	37.7	36.8	35.9	32.8	21.6	16.2	16.2	16.2
Percent of exports of goods and services	2.6	2.2	1.8	1.9	2.4	2.6	2.4	2.1	1.6	1.2	0.7	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Percent of debt service 2/	54.3	37.8	34.7	44.1	62.5	61.8	53.1	52.2	45.2	39.6	31.6	25.4	40.5	44.3	47.5	52.8	57.5	60.2	61.1	63.0	63.4	56.1	52.0	55.3	58.7
Percent of GDP	0.9	0.8	0.6	0.6	0.8	0.9	0.8	0.7	0.5	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Percent of gross international reserves	3.2	2.6	2.3	2.5	3.1	3.6	3.3	3.1	2.5	1.9	1.2	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.2	0.2
Percent of quota	64.1	57.3	50.0	57.6	71.7	85.1	81.2	76.8	63.1	48.8	31.6	19.0	17.4	17.0	16.6	16.3	15.9	15.5	15.2	14.8	13.5	8.9	6.7	6.7	6.7
Principal	44.3	33.1	25.8	34.5	49.8	65.5	63.7	61.2	49.5	36.8	20.7	8.8	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	6.6	2.2	-	0.0	0.0
GRA	41.2	25.0	14.1	18.2	27.9	39.5	38.7	38.3	32.5	26.3	14.3	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	3.1	8.1	11.7	16.3	21.9	26.0	24.9	23.0	17.0	10.5	5.5	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	5.3	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	6.6	2.2	0.0	0.0	0.0
Outstanding Fund Credit Based on Existing and Prospective Credit																									
Millions of SDRs	795.2	836.7	792.2	732.7	646.9	533.9	424.1	318.4	233.0	169.6	133.8	118.6	105.7	92.7	79.8	66.8	53.9	41.0	28.0	15.1	3.8	0.0	0.0	0.0	0.0
GRA	451.6	434.0	409.6	378.3	330.3	262.1	195.3	129.2	73.2	27.8	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	268.2	273.3	253.2	225.0	187.2	142.4	99.4	59.8	30.5	12.4	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	75.5	129.4	129.4	129.4	129.4	129.4	129.4	129.4	129.4	129.4	127.8	118.6	105.7	92.7	79.8	66.8	53.9	41.0	28.0	15.1	3.8	0.0	0.0	0.0	0.0
Millions of U.S. dollars	1,110.2	1,171.1	1,113.0	1,029.4	908.8	750.1	595.8	447.4	327.4	238.3	188.0	166.6	148.4	130.3	112.1	93.9	75.7	57.6	39.4	21.2	5.3	0.0	0.0	0.0	0.0
Percent of exports of goods and services	18.8	18.9	16.5	13.9	12.6	9.6	7.1	5.0	3.4	2.3	1.7	1.4	1.2	1.0	0.8	0.6	0.5	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Percent of debt service 2/	390.8	319.5	318.4	325.0	327.2	224.7	160.8	125.6	96.8	79.7	77.5	91.8	142.8	140.0	132.1	125.7	112.9	92.0	65.4	37.2	10.3	0.0	0.0	0.0	0.0
Percent of GDP	6.5	6.4	5.5	4.6	4.2	3.2	2.4	1.7	1.1	0.8	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	23.1	22.3	21.0	18.8	16.4	13.0	10.1	7.4	5.3	3.8	2.9	2.5	2.2	1.9	1.6	1.3	1.0	0.8	0.5	0.3	0.1	0.0	0.0	0.0	0.0
Percent of quota	461.0	485.0	459.2	424.8	375.0	309.5	245.8	184.6	135.1	98.3	77.6	68.8	61.2	53.8	46.2	38.8	31.2	23.8	16.2	8.8	2.2	0.0	0.0	0.0	0.0
GRA	261.8	251.6	237.5	219.3	191.5	151.9	113.2	74.9	42.4	16.1	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	155.4	158.4	146.8	130.5	108.5	82.6	57.6	34.7	17.7	7.2	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	43.8	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	74.1	68.8	61.2	53.8	46.2	38.8	31.2	23.8	16.2	8.8	2.2	0.0	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	86.0	144.2	0.1	-59.5	-85.9	-113.0	-109.8	-105.6	-85.4	-63.4	-35.8	-15.2	-12.9	-12.9	-12.9	-12.9	-12.9	-12.9	-12.9	-12.9	-11.3	-3.8	0.0	0.0	0.0
Disbursements and purchases	162.6	201.2	44.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	76.5	57.0	44.5	59.5	85.9	113.0	109.8	105.6	85.4	63.4	35.8	15.2	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	11.3	3.8	0.0	0.0	0.0
Memorandum Items:																									
Exports of goods and services (millions of U.S. dollars)	5,900	6,202	6,763	7,381	7,200	7,795	8,344	8,931	9,560	10,233	10,953	11,725	12,550	13,434	14,380	15,392	16,476	17,636	18,878	20,207	21,622	23,135	24,755	26,487	28,342
Debt service (millions of U.S. dollars) 2/	284.1	366.5	349.6	316.7	277.8	333.8	370.4	356.3	338.3	299.1	242.6	181.5	104.0	93.0	84.8	74.7	67.1	62.6	60.2	57.0	51.7	38.5	31.2	29.3	27.6
Nominal GDP (millions of U.S. dollars) 2/	17,052	18,356	20,190	22,247	21,700	23,493	25,147	26,917	28,813	30,841	33,013	35,337	37,825	40,489	43,339	46,391	49,657	53,154	56,896	60,902	65,166	69,727	74,608	79,831	85,419
Gross International Reserves (millions of U.S. dollars)	4,807	5,259	5,297	5,489	5,528	5,792	5,926	6,061	6,196	6,332	6,468	6,606	6,744	6,882	7,019	7,157	7,295	7,433	7,571	7,709	7,847	7,985	8,123	8,261	8,399
Average exchange rate: SDR per U.S. dollars	0.72	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71
Quota (millions of SDRs)	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5

Sources: IMF staff estimates and projections.

1/ Assume repurchases are made on obligations schedule. Moldova belongs to the RST Group B.
2/ Total debt service includes IMF repurchases and repayments.

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

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

Source: IMF staff estimates.

1/ Moldova's quota is SDR 172.5 million.

Table 10. Moldova: Proposed Disbursements Under the RSF

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

Source: IMF Staff

Note: The RSF has a tiered interest rate structure that differentiates financing terms across groups of countries (Group A, B, and C) with lower income members benefiting from more concessional terms. Moldova is classified in Group B. For details of the RSF's tiered interest rate structure refer to the RST instrument (Attachment A, IMF Executive Board Decision No. 17231-(22/37) April 13, 2022, as amended).

Table 11. Moldova: RSF Reform Measures

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

Source: IMF Staff

Table 12. Moldova: Decomposition of Public Debt and Debt Service by Creditor, 2024–27 1/

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

	Debt Stock (end of period) 3/31/2024			Debt Service 2024	2025	2026	2027	2024	2025	2026	2027
		(Percent total debt)	(Percent GDP)					(Percent GDP)			
Total	**6202.9**	**100.0%**	**35.9%**	**882.2**	**3051.3**	**3655.0**	**4235.0**	**5.1%**	**15.7%**	**17.4%**	**18.7%**
External	**3727.4**	**60.1%**	**21.6%**	**493.5**	**346.7**	**367.6**	**404.0**	**2.9%**	**1.8%**	**1.7%**	**1.8%**
Multilateral creditors[2,3]	3398.8	54.8%	19.7%	462.2	328.7	349.3	385.6	2.7%	1.7%	1.7%	1.7%
IMF	1139.5	18.4%	6.6%								
World Bank	1050.8	16.9%	6.1%								
ADB/AfDB/IADB	0.0	0.0%	0.0%								
Other Multilaterals	1208.4	19.5%	7.0%								
o/w: list largest two creditors	775.3	12.5%	4.5%								
EIB	452.7	7.3%	2.6%								
EBRD	322.6	5.2%	1.9%								
list of additional large creditors	285.8	4.6%	1.7%								
EU	285.8	4.6%	1.7%								
Bilateral Creditors[2]	328.6	5.3%	1.9%	31.3	18.0	18.3	18.5	0.2%	0.1%	0.1%	0.1%
Paris Club	304.4	4.9%	1.8%	31.3	17.0	17.4	17.5	0.2%	0.1%	0.1%	0.1%
o/w: list largest two creditors	261.5	4.2%	1.5%								
AFD	124.0	2.0%	0.7%								
JICA	137.5	2.2%	0.8%								
list of additional large creditors	0.0	0.0%	0.0%								
Non-Paris Club	24.2	0.4%	0.1%	0.0	0.9	0.9	0.9	0.0%	0.0%	0.0%	0.0%
o/w: list largest two creditors	24.2	0.4%	0.1%								
Government of Poland	22.0	0.4%	0.1%								
BGK Bank Poland	2.2	0.0%	0.0%								
list of additional large creditors	0.0	0.0%	0.0%								
Bonds	0.0	0.0%	0.0%					0.0%	0.0%	0.0%	0.0%
Commercial creditors	0.0	0.0%	0.0%					0.0%	0.0%	0.0%	0.0%
o/w: list largest two creditors	0.0	0.0%	0.0%								
list of additional large creditors	0.0	0.0%	0.0%								
Other international creditors	0.0	0.0%	0.0%					0.0%	0.0%	0.0%	0.0%
o/w: list largest two creditors	0.0	0.0%	0.0%								
list of additional large creditors	0.0	0.0%	0.0%								
Domestic	**2475.5**	**39.9%**	**14.3%**	**388.7**	**2704.6**	**3287.4**	**3831.0**	**2.3%**	**13.9%**	**15.6%**	**16.9%**
Held by residents, total	2475.1	39.9%	14.3%								
Held by non-residents, total	0.4	0.0%	0.0%								
T-Bills	1496.0	24.1%	8.7%	354.4	2215.3	2663.0	2932.1	2.1%	11.4%	12.7%	12.9%
Held by: central bank		0.0%	0.0%						0.0%		0.0%
local banks		0.0%	0.0%						0.0%		0.0%
local non-banks		0.0%	0.0%						0.0%		0.0%
non-residents		0.0%	0.0%						0.0%		0.0%
Bonds	894.6	14.4%	5.2%	16.9	447.2	609.9	888.6	0.1%	2.3%	2.9%	3.9%
Held by: central bank		0.0%	0.0%						0.0%		0.0%
local banks		0.0%	0.0%						0.0%		0.0%
local non-banks		0.0%	0.0%						0.0%		0.0%
non-residents		0.0%	0.0%						0.0%		0.0%
Loans*	85.0	1.4%	0.5%	17.5	42.1	14.5	10.3	0.1%	0.2%	0.1%	0.0%
Held by: central bank											
local banks											
local non-banks											
non-residents											
Memo items:	**93.6**	**1.5%**	**0.5%**								
Collateralized debt[4]	n/a	n/a	n/a								
o/w: Related	n/a	n/a	n/a								
o/w: Unrelated											
Contingent liabilities	93.6	1.5%	0.5%	0.0	0.5	0.5	0.5	0.0%	0.0%	0.0%	0.0%
o/w: Public guarantees	93.6	1.5%	0.5%	0.0	0.5	0.5	0.5	0.0%	0.0%	0.0%	0.0%
o/w: Other explicit contingent liabilities[5]	n/a	n/a	n/a								
Nominal GDP	17272.1			18051.7	19462.8	21027.8	22691.7				

Sources: Moldovan authorities and IMF staff projections.

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

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

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

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

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

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

Annex I. Risk Assessment Matrix

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

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
			significantly more expensive. This may necessitate temporary rationing.	
• **Social discontent.** High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing	**Medium**	**Short to Medium Term**	**Medium** • Economic activity and supply disruptions are likely, if elevated social tensions and heightened insecurity ensue from more severe and prolonged job losses and hampered business activity. • Loss of confidence in the government's ability to facilitate a strong recovery may fuel political instability and aggravate economic uncertainty. • Risk of policy reversals by the government to appease rising protest demands, and/or mitigate heightened instability.	• Strengthen budget outlays, especially those geared towards social spending in support of distraught households, and in support of businesses and economic recovery. • Communicate the government's policy deliverables clearly to the population and to economic agents, to underscore the credibility of its intentions and provide certainty, clarity, and assurances to market participants on the path of adjustment and recovery. • Enhance rule of law and strengthen anti-corruption measures, including those aimed at increasing transparency and accountability in public spending. • Avoid policy reversals.
• **Abrupt global slowdown.** Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. • **Europe.** Intensifying fallout from Russia's war in Ukraine, supply disruptions, tight financial conditions, and real estate market corrections exacerbate economic downturn.	**Medium**	**Short to Medium Term**	**High** • An economic slowdown in Europe and key trading partners will weigh on Moldova, leading to a growth slowdown, further inflationary pressure, and weaker fiscal position. • Limited external financing. Further tightening of financing constraints could result in lower rollover rates.	• Secure alternative energy sources. • Implement measures to ration demand. • Seek additional support from external partners. • Advance structural reforms to improve competitiveness. • Monitor fiscal and financial sector risks closely. • Limit expenditures to the extent that available fiscal cash buffers and external financing allow. • Ensure that the high-priority social spending is protected.
• **Monetary policy miscalibration.** Amid high economic uncertainty, major central banks loosen policy	**Medium**	**Short to Medium Term**	**High** • Inflation starts rising again due to mis-calibrated rate cuts, the NBM's credibility	• Closely monitor inflation. • Carefully calibrate policy decisions,

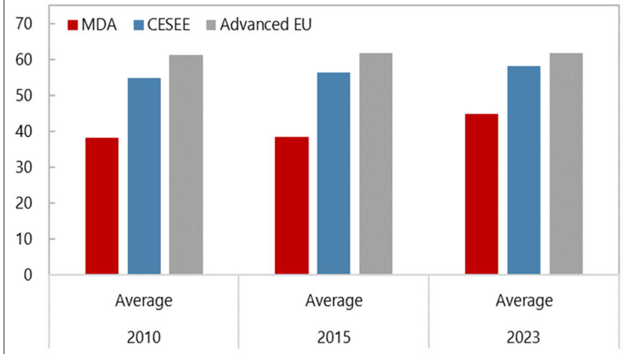
Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.			suffers, and inflation expectations start to de-anchor, hindering price stability objective.	particularly high uncertainty. • Clear communication to continue firmly anchor inflation expectations. • If tightening, implement support measures for the most vulnerable. • Further strengthen NBM independence to ensure monetary policy credibility and achieve policy objectives.
		Structural Risks		
• **Deepening geoeconomic fragmentation.** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**High**	**Short to Medium Term**	**High** • Tensions in major regional trade partners and donors could disrupt Moldova's growth trajectory through trade, remittances, and financial flows, aggravate domestic and external financing constraints, and undermine energy security. • Associated changes in global trade, remittances, and capital flow patterns could affect Moldova's economy and the balance of payments.	• Diversify the economy and improve competitiveness via structural reforms. • Improve effectiveness of donor-financed projects. • Invest in new infrastructure, technology, and labor skills. • Rebuild fiscal and financial buffers. • Maintain flexible exchange rate regime. • Seek additional support from external partners.
• **Cyberthreats.** Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	**Medium**	**Short to Medium Term**	**High** • Potential paralysis to financial services provided by bank and non-bank financial institutions can depress economic activity and induce hefty costs and financial losses, fuel sudden stops in government, household, and cross border operations, and raise fears of financial contagion and of identity theft.	• Review and strengthen national cyber security risk management and mitigation policies, such as safety of personal, banking, and sensitive official information sources, records, and data systems. • Invest in continuous, automatic backups on secured servers. • Seek support from international and bilateral partners.
• **Extreme climate events.** Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**Short to Medium Term**	**High** • Adverse weather conditions would directly affect economic and labor conditions in the large agricultural sector, put pressures on domestic food	• Diversify the economy and improve competitiveness via structural reforms. • Invest in climate-related adaptative capacity.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
			prices, and reduce export flows. • Lower potential growth.	• Use monetary policy to address second round effects of commodity prices shocks.
		Country-specific Risks		
• **Feedback loops from corporate balance sheets and spillovers from non-banks to banks,** resulting from shocks to the energy and agricultural sectors as well as exposures to Russia, Ukraine and Belarus.	**Medium**	**Short term**	**High** • A significant worsening of borrower balance sheets, concentrated in the energy and agricultural sectors would lead to rising NPLs. • Spillovers from the non-bank sector could further exacerbate stress in financial institutions.	• Follow standard procedures in place, including collateral enforcement and capital and provisioning buffers to absorb losses. • Strengthen monitoring of non-banks and stand ready to take necessary preventive regulatory measures should risks increase. • Implement policies to resolve insolvent non-bank entities.
• **A materialization of governance weaknesses or corruption vulnerabilities could contribute to domestic populism and reform fatigue**, which could jeopardize reform momentum and undermine donor funding.	**High**	**Short to Medium Term**	**High** • Lower potential growth on account of continued emigration, crumbling infrastructure, and low productivity.	• Continue policy reforms and safeguard progress to date. • Resist populist demands. • Protect social spending on poor, improve targeting. • Continue growth-friendly fiscal policy. • Maintain flexible exchange rate regime. • Implement active labor market policies to encourage labor market participation. • Strengthen anticorruption efforts and rule of law to instill public confidence in government and public bodies.

Annex II. Strengthening Moldova's Labor Force Participation[1]

1. **Moldova's labor force participation has improved in the past decade, but remains well below EU countries.** Moldova labor force participation rate stands at 45 percent in 2023, compared to 58 percent and 62 percent in the CESEE and advanced Europe, respectively. Despite the lower level, labor force participation has improved more rapidly in Moldova compared to the rest of Europe—by 7 ppts between 2010 and 2023, compared to 3.1 ppts and 0.5 ppt in the CESEE and developed Europe, respectively.

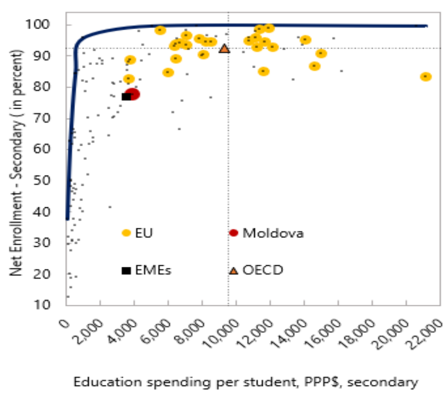
Labor Force Participation Rate
(Percent)



Sources: ILO and IMF staff calculation

2. **The still-low labor force participation in Moldova can be attributed to informality, outmigration, and skills mismatches between labor supply and demand, among other factors.** The high prevalence of informality in the Moldovan economy attracts a significant share of labor into informal employment, thereby reducing formal labor participation.[2] The increased outmigration in recent years has also been a drag on labor participation. The proportion of the working-age population that migrates to foreign countries nearly doubled after 2014, reaching 9 percent in 2022. This trend likely continued in 2023 due to the persistent impact of the war in Ukraine and weaker economic activity in Moldova. Anecdotal evidence also suggests that an increasing share of the working-age population works at least part time in neighboring countries (Romania), while residing in Moldova and remaining outside the domestic labor market. Additional factors—such as mismatches between available skills and labor demand, weak efficiency of education investment and education outcome, a less favorable business environment, barriers to women employment (e.g., inadequate childcare options), and weaker institutions (e.g., compliance with the rule of law and control of corruption)—also contribute to weaken labor force participation.

Government Education Spending and Outcome, Secondary, Latest Value Available [1/]



Source: IMF FAD Expenditure Assessment Tool.
1/ Dash lines are EU averages.

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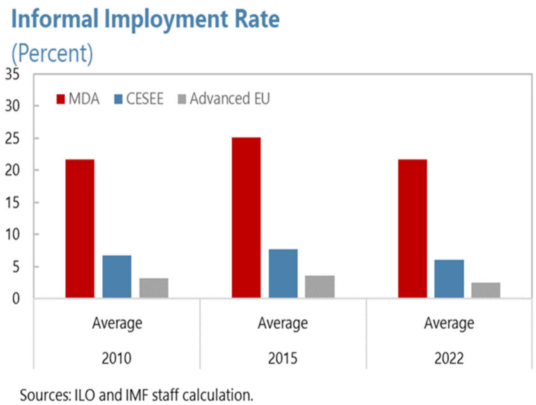
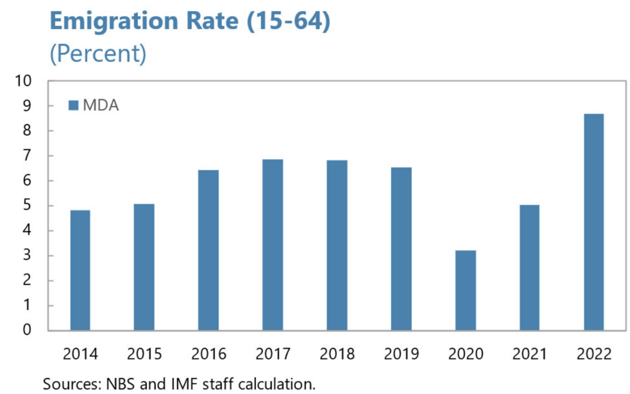
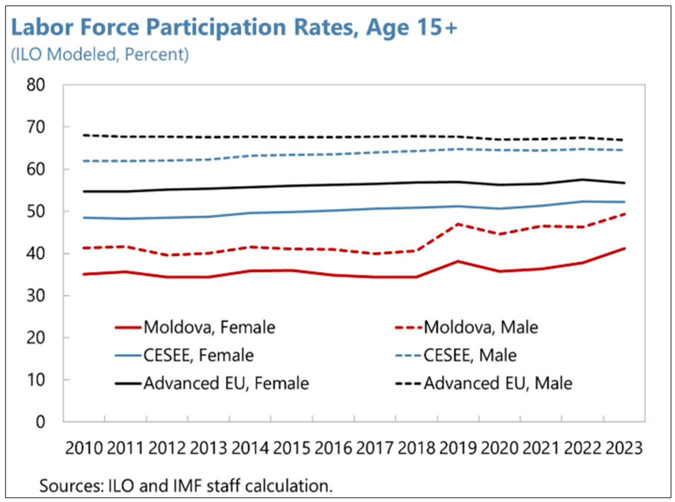
[1] Prepared by Armand Fouejieu and Yiran Zha. We thank Lisa Kolovich (SPR-IG) for the useful exchanges.

[2] The agriculture sector accounts for the largest share of informal employment (estimated at about half), mostly concentrated in rural areas.





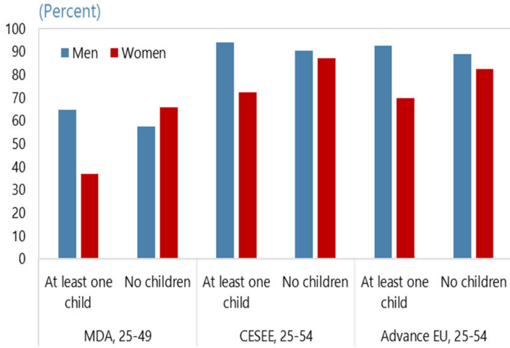
3. The gender gap in labor force participation is particularly high for women with children. Labor force participation was 49.4 percent for men in 2023, compared to 41.2 percent for women, a gap of 8 ppts, increasing from 6 ppts in 2010 and despite the fact that Moldovan women have achieved higher degrees of education on average compared to men. This gender gap is nonetheless lower than the EU average (11 percent). In 2022, the employment rate of the population age 25-49 was 60 percent for men and 54.9 for women, in Moldova. However, for the same age group, the employment rate was only 37 percent for women with at least one child, compared to 65.9 percent for women without children.[3] Women with children in rural areas appear to be even more constrained, with an employment rate of 35 percent, compared to 39 percent in urban areas. Overall, the employment rate of women with children is about 90 percent lower on average in Moldova compared to the rest of Europe.[4]



[3] In Moldova, the employment rate of women without children is above that of men, in contrast to EU peers. This is partly due to men representing a larger share of the population that migrates out of the country or work at least part-time abroad and to the higher education achievements of women.

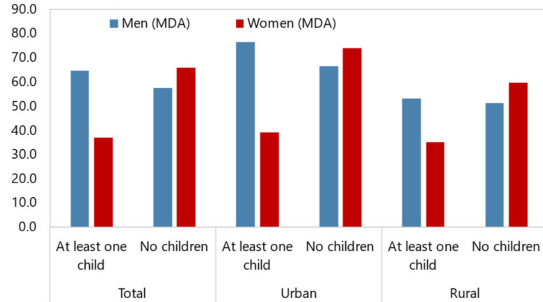
[4] In advanced EU, the employment rate of women with at least one child is 70 percent, compared to 37 percent in Moldova. The differences in age groups coverage in the data (25–49 for Moldova, and 25–54 in the rest of the EU) only marginally affects the comparison.

Employment Rate by Sex and Presence of Children
(Percent)



Sources: ILO, NBS and IMF staff calculation.

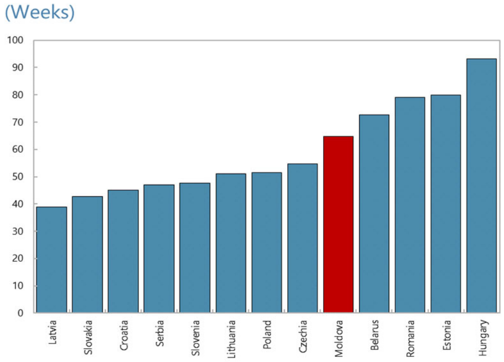
Employment Rate for Persons Aged 25-49, 2022
(Percent)



Source: NBS.

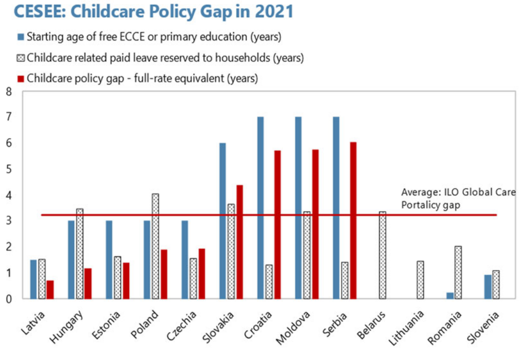
4. Childcare policies represent a key barrier to women employment and labor force participation. Moldova is one of the few countries in the region which does not have a statutory childcare service system for children aged up to 2 years. Although a recent law on Alternative Care (and a related National Programme for Childcare Services for children under 3 years old, 2023–2026) aims at improving the availability of childcare services, access remains limited, including due the high cost, as the state is not required to finance such services, contrary to EU countries. The ILO's childcare policy gap, defined as the difference (in months or years) between the starting age of universal and free early childhood care and education (ECCE) or primary education and the duration of paid leave available to households, is one of the highest in Moldova compared to European peers. The Gender gap in childcare-related paid leave (capturing the restrictions to paid paternity leaves—which would facilitate the return of mothers to the labor market) is also high in Moldova compared to peer averages. These and other factors (e.g., including cultural considerations[5]) contribute to maintain low women employment and participation in the labor force.

CESEE: Gender Gap in Childcare-related Paid Leave
(Weeks)



Source: ILO Global Care Portal.

CESEE: Childcare Policy Gap in 2021



Sources: ILO Global Care Portal and IMF Staff Calculation.
Note: The childcare policy gap is the difference (in months or years) between the starting age of universal and free early childhood care and education (ECCE) or primary education and the duration of paid leave available to households.

[5] A 2015 survey showed that in Moldova, about 90 percent of men and 81.5 percent of women consider that most important occupation for a woman is to care of the household (Women's Law Center (2015): Men and gender equality).

5. **Unlocking labor force participation requires structural reforms, including to close gender gaps in employment.** Reforms include boosting efficiency of education expenditures, increasing average education levels and outcomes, addressing skill mismatches between labor supply and demand, reducing informality, strengthening institutions and the business environment to help reduce outmigration, and enhancing childcare policies. While requiring additional investment, policies to close the gender gap in employment would have an immediate positive impact on labor force participation and household incomes and large long-term benefits for economic growth. Estimates based on the ILO Care Policy Investment Simulator suggest that the required additional investment to close the gaps in key children-related care services (maternity, paternity and parental leave, early childhood care and education, long-term care, breastfeeding breaks) would amount to up to 1.9 percent of GDP annually in Moldova over a decade. The benefits of such investment are large. It could increase total employment by as much as 10 percent, reduce the current gender employment gap to about 3 percent from 8 percent, and reduce the gender gap in monthly wages by about 1.4 percentage points. The aggregate return on investment for the economy as a whole is estimated to be about US$ 5.8 for every dollar invested over a decade.

Appendix I. Letter of Intent

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

Chişinău, Moldova
June 13, 2024

Dear Madam Managing Director:

1. The attached documents provide updates to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) of November 20, 2023. The updated MEFP reports on recent economic developments, reviews progress in implementing Moldova's program under the Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangements and the Resilience and Sustainability Facility (RSF) arrangement and sets out macroeconomic and structural policies that we plan to implement going forward, including to address significant climate-related challenges.

2. Moldova's recovery from the multiple crises is taking longer than expected, with weaker-than projected growth in 2023–24. Growth was 0.7 percent in 2023 (first estimate), well below our earlier projections, due to weaker-than-expected private consumption and investment. Stronger agriculture production and improved trade deficit supported growth. For this year, we project economic activity to grow by 2.6 percent, with a gradual recovery of private consumption, while investments will continue to be affected by the high uncertainty related to the war in Ukraine. Inflation has stabilized and remains within the National Bank of Moldova's tolerance band; a strong disinflationary outlook has led to an easing of the monetary policy stance. The outlook remains subject to significant uncertainty, with large downside risks.

3. Despite the difficult environment, our IMF-supported programs remain broadly on track. We met all the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2023, with the exception of the IT on targeted social spending, which was missed due to savings from the Energy Vulnerability Reduction Fund, on account of a milder winter and more favorable energy prices. We also met all the end-March 2024 ITs, except the IT on the general government wage bill, due to a slight overspent which is nonetheless expected to be compatible with the annual budget allocation. On structural reforms, we met three structural benchmarks (SBs) for end-December 2023. In particular, we (i) completed the triage of SOEs at the central government level, (ii) implemented the automated tax filing compliance program for VAT and excises, and (iii) well ahead of the end-December deadline, we extended the tax expenditure analysis to include excises, custom duties and real estate tax. However, we missed the end-December 2023 structural

benchmark on presentation to the Parliament of amendments to strengthen the NBM independence and governance. This reflected extended discussions in government on the reforms. Recognizing the importance of this reform, we have submitted to Parliament the amendments on June 3, 2024 (prior action). In addition, we missed the end-March 2024 structural benchmark on adoption of an anti-corruption adjudication infrastructure law, due to the complexity of the law and extended discussions in Parliament. Parliament is now expected to approve the law by end-September. On the RSF, all three reform measures planned for the first review of the program have been met: i) approval of the Law on Climate Action and establishment of the National Committee for Climate Change (NCCC) (RM1), ii) development of the Sustainable Finance Strategy (RM11), and iii) the establishment of the interagency committee on climate finance (RM10).

4. Reflecting continued commitments to the program objectives, we agree to a set of new structural benchmarks, that include: (i) submission to Parliament of a package of legislative amendments to strengthen the NBM law (end-November 2024), (ii) adopting legal amendments to grant APO autonomy in hiring of staff (end-November 2024), (iii) preparing a report summarizing the findings of a review of the legislative framework and practices of tax audits (end-January 2025), (iv) developing a plan for modernization of tax audits in line with the findings of the report (end-April 2025), and (v) presenting the fiscal accounts in line with *GFSM2014* (end-April 2025). The missed structural benchmark on the adoption of the law on the establishment of anti-corruption adjudication infrastructure is also proposed to be reset as a SB for end-September 2024.

5. To support our ongoing efforts, we request the completion of the fifth review of the ECF/EFF program and the release of the seventh tranche in the amount of SDR 100.6 million (SDR 81.55 million under the EFF and SDR 19.05 million under the ECF), approximately US$133 million, to be used as budget support. We believe that the policies outlined in the accompanying MEFP are sufficient to meet our program's objectives.

6. To support our ambitious agenda to address climate challenges and facilitate efforts to catalyze climate finance from other official and private partners, we are also requesting the completion of the first review under the Resilience and Sustainability Facility (RSF), with accompanying disbursements worth SDR 32.34375 million (approximately US$42.8 million). To this end, we have prepared a comprehensive reform package, also outlined in the attached MEFP.

7. We are also requesting the modification of the quantitative criterion on the ceiling of the cash deficit of the general government for end-December 2024, to reflect the anticipated revenue shortfall compared to the approved budget due to weaker-than-projected economic activity.

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

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

Sincerely yours,

/s/

Dorin Recean
Prime Minister

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

Attachment I. Memorandum of Economic and Financial Policies

I. Macroeconomic Developments and Outlook

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

2. We have managed to safeguard energy security so far, but risks remain. We have successfully diversified our sources of gas supplies and decoupled from dependency on Gazprom, and successfully handled another heating season. In line with the contingency plans, this was achieved by leveraging fiscal buffers and EBRD credit lines. We are continuing re-stocking our gas reserves. However, risks remain in the electricity sector due to dependency on electricity supplies from the MGRES power plant in Transnistria. In February, MGRES provided about 60 percent of the total electricity demand, while the rest was contracted from domestic sources, Ukraine, Romania and the OPCOM exchange. We have secured electricity deliveries from MGRES through end-2024 at the same price.

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

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

- ***Growth.*** The economy is estimated to have grown by 0.7 percent in 2023, notably weaker than 2 percent projected at the time of the fourth review of the program, due to weaker-than-expected private consumption and investment. Stronger agriculture production and improved trade deficit supported growth. We project economic activity to grow by a modest 2.6 percent in 2024 (compared to the projected 3.9 percent at the time of the fourth review), with gradual recovery of private consumption and still subdued investments related to the ongoing war in Ukraine and high uncertainty.

- ***Inflation.*** After declining rapidly in 2023, headline inflation has stabilized, remaining within the National Bank of Moldova's (NBM) tolerance band of 5+/-1.5 percent, since October 2023. The lower inflation (3.5 percent in April 2024) was driven by a decline in food and regulated prices.

- ***Fiscal position.*** The fiscal deficit in 2023 was 5.2 percent of GDP, in line with the fourth review of the program, but lower than the originally budgeted 6 percent. Revenue collection was lower than expected due to weaker VAT on imports and a faster fading inflationary effect on consumption. On the expenditure side, transfers to households recorded about 25 percent savings in the Energy Vulnerability Reduction Fund (EVRF), due to lower international energy prices and favorable weather, and were relocated to the Road Fund, Regional Development Fund, and wages (through one-time bonuses).

- ***External.*** The current account deficit narrowed significantly to 11.9 percent of GDP in 2023, reflecting weaker imports, especially from energy, and continued strong disbursements from external donors. The war in Ukraine continues to have effects on the balance of payments, particularly on trade due to the re-orientation of exports and imports. Remittances have also remained subdued and are slow to recover. Gross foreign exchange (FX) reserves continued to build up, reaching USD 5.4 billion in end-April; at over 6 months of import coverage, they provide adequate cushions against external shocks.

- ***Monetary and financial policies.*** The strong disinflationary outlook and weak growth has led to an easing of the monetary policy stance, with NBM cutting its policy rate since December 2022, reaching 3.6 percent in May 2024, from the peak of 21.5 percent in November 2022. The financial sector continues to show resilience, with deposits and liquidity buffers exceeding pre-war levels. Credit growth is gradually recovering, while non-performing loans (NPLs) decreased to 5.7 percent in January.

5. The outlook is subject to significant uncertainty with large downside risks. Further escalation of the war leading to new waves of refugee inflows to Moldova, or a deterioration of security and economic conditions, could put additional strain on public finances, undermine confidence and exert pressure on the exchange rate. Although risks to the energy sector have abated, additional energy shocks could aggravate Moldova's economic outlook, creating fiscal and balance of payments pressures, weaker consumption and output losses, and further upset the fragile social fabric. Risks of deterioration of the political environment could complicate the ongoing reform momentum, together with insufficient progress on anti-corruption and governance reforms. Extreme weather events pose significant risks to the energy and agricultural sectors. However, a faster recovery in domestic demand, and a stronger rebound in economic activity of trading partners present upside risks to the outlook.

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

II. Program Developments

7. Our program implementation appears broadly on track although with some delays on structural reforms. We met all the quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2023, with the exception of the IT on targeted social spending which was missed due to savings from the Energy Vulnerability Reduction Fund, on account of a milder winter and more favorable energy prices. We met three structural benchmarks (SBs) for end-December 2023. In particular, we: (i) completed the triage of SOEs at the central government level, (ii) we implemented the automated tax filing compliance program for VAT and excises, and (iii) well ahead of the end-December deadline, we extended the tax expenditure analysis to include excises, custom duties and real estate tax. However, we missed the structural benchmark on presentation to the Parliament of amendments to strengthen the NBM independence and governance. Recognizing the importance of such reforms, we have submitted to Parliament the amendments on June 3, 2024 (**prior action**). We also met all the end-March 2024 ITs, except the IT on the general government wage bill, due to a slight overspent, which is nonetheless expected to be compatible with the annual budget allocation. In addition, we missed the end-March structural benchmark on adoption of an anti-corruption adjudication infrastructure law, due to the complexity of the law and extended discussions in Parliament. The SB has been reset for end-September 2024. On the RSF, all three reform measures planned for the first review of the program have been met: i) approval of the Law on Climate Action and establishment of the National Committee for Climate Change (NCCC) (RM1), ii) development of the Sustainable Finance Strategy (RM11), and iii) establishment of the interagency committee on climate finance (RM10).

8. On March 31, 2023, we created an escrow account at the NBM and deposited the outstanding amounts to service the external debt owed to official creditors that cannot be

paid due to factors outside of our control, as specified in the Technical Memorandum of Understanding (TMU). These obligations stem from old commercial debt contracted in 2001, with the current amount outstanding at around USD 14.6 million from a USD 91 million total. The escrow account fulfills the following conditions: (i) no third party (including the Treasury or the Ministry of Finance) has access to the funds deposited on the account; (ii) funds deposited on the account can only be used to service the related debt, according to the repayment schedule and in line with international sanctions; and (iii) funds accumulated on the account can only be transferred back to the Ministry of Finance if there is legal evidence of an agreement to service the debt through other instruments or if funds need to be transferred to another account with the same purpose.

III. Policy Framework

A. Fiscal Policy

9. The 2024 budget supports growth enhancing reforms while providing moderate consolidation in line with the IMF's macro-framework. It prioritizes better-targeted social assistance and strengthens social safety nets, enhances energy security, supports private sector development, while promoting infrastructure investment in line with budget execution. To safeguard social protection, we indexed pensions with inflation and certain social benefits by 6 percent. We will improve program design and impact of social programs including Ajutorul Social Program. The EVRF was consolidated with the APRA assistance and will transition from in-bill to cash transfers delinked from current energy consumption. To support these policies and create fiscal space, we will enhance revenue mobilization by further advancing tax administration reforms, including through the implementation of the automated tax-filing compliance program (end-December 2023 SB, met), and by applying a general anti-avoidance rule provision that entered into force on January 1st, to counter domestic and international abusive tax practices.

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

11. We are preparing a midyear supplementary budget within the agreed general government total expenditure in the 2024 budget. It aims to reallocate spending informed by budget execution and reflective of available external financing. It will favor infrastructure investment, including by increasing the allocation for the Road Fund and Regional Development Fund, the EVRF, while maintaining adequate contingency buffers. The supplementary budget deficit will only increase by the projected tax revenue shortfall (MDL 803 ml).

12. Our medium-term fiscal policy aims to pursue our developmental goals while preserving fiscal sustainability. Our medium-term budget framework targets a reduction in the general government deficit from 5 to 3.1 percent of GDP in 2024–27, anchoring the total public debt to GDP ratio below 45 percent to retain sufficient buffers against contingent liability risks and shocks. This will be underpinned by reforms to mobilize domestic revenues, improve tax administration, and promote sustainable development-focused spending. We aim to enhance spending efficiency, develop the domestic capital market, and strengthen fiscal governance and transparency.

Reforms to Strengthen Revenue Mobilization

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

- **Conduct a comprehensive tax policy diagnostic.** We recognize that our tax system has suffered frequent isolated changes that over the years led to a buildup of inefficiencies and complexities. With the help of IMF technical assistance, we have started a comprehensive diagnostic of the Moldova Tax Code, to assess the interlinkages and consistencies between tax policy and revenue administration, and all major taxes. This would help us identify main weaknesses and inform our policy decisions and move towards a more progressive tax system.

- **Identify tax expenditure provisions for phasing out.** Informed by the completed tax expenditure reviews analysis (**end-December 2023 SB**, met), we will prepare a proposal identifying tax expenditures to be phased, based on cost-benefit analysis (**end-December 2024 SB**). This will help eliminate abusive practices, reduce tax system inefficiencies, and mobilize domestic revenues.

- **Continue strengthening revenue administration.** We will continue to enhance the capacity of the State Tax Service (STS) in line with IMF TA, including the Tax Administration Diagnostic Assessment Tool (TADAT) recommendations, by: (i) building a comprehensive compliance risks management process with a functioning governance framework in the STS that is able to detect and effectively address the biggest tax revenue risks; (ii) investigate and refer tax crimes for prosecution by signing relevant protocols, addressing gaps in legislation, and organizing training and technical assistance from external partners; (iii) enhancing voluntary tax compliance; (iv) launching the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes by November 2024; We will also enhance the automated tax filing compliance program by including taxes other than VAT and excises. With IMF technical assistance, we will prepare a report summarizing the findings of a review of the legislative framework and practices of tax audit (**new end-January 2025 SB**), that will serve as basis for the development of a plan to modernize the tax audit function (**new end-April 2025 SB**).

- **Continue actions towards reduction of global greenhouse gas (GHG) emissions.** Road fuel excises are adjusted annually by nominal GDP growth with a view to converge towards minimum EU levels by 2025. After the energy crisis subsides, we will step up our work on the revision and improvement of the taxation system in line with national, regional and international commitments on GHG emissions, following a thorough assessment of social and economic considerations.

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

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

Reforms to Improve Budget Quality and Fiscal Transparency

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

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

- **Improve the credibility of the Medium-Term Budget Framework (MTBF).** Our budgets are currently subject to under-execution and deviations from planned expenditures. We are working with line ministries to improve coordination and address bottlenecks in budget execution. We will start the process of preparing fiscal accounts in GFSM2014 -compliant format to expand the coverage of general government statistics and address expenditure classification issues. We aim to present fiscal accounts 2024 in the GFSM2014 format new end-April SB 2025 with IMF technical assistance. We are preparing the MTBF for the period 2025–28, with plan to adopt it by July 2024. With the IMF technical assistance, we will work towards strengthening the MTBF preparation and implementation process. We aim to establish binding (for the first budget year) and indicative (for the following two years) multiyear expenditure limits. A stronger MTBF will ensure that citizens are aware of the full multiyear fiscal impact of new policies and their effect on long-term fiscal sustainability and will also serve as an early warning system to take corrective action when needed.

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

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

- **Enhance disclosure and the management of fiscal risks.** We have made progress in identifying and reporting fiscal risks and published a fiscal risk statement as an addendum to our budget documents starting 2018. In 2020, we expanded it to include key public private partnerships (PPPs), large state-owned enterprises (SOEs), and government guarantees including the Prima Casa housing support program. With the help of EU technical assistance, we are applying a new methodology to assess fiscal risks from SOEs, including operating in the energy sector. We plan to expand coverage of the Fiscal Risk Statement to include climate hazard risks (section F). We will continue to improve the coverage, monitoring, inter-agency coordination, and reporting quality of contingent liabilities in our fiscal risk statements going forward (see SOE reforms).

- **Strengthen debt and cash management.** Despite recent progress, especially with respect to data quality and inter-agency coordination, financial instruments are limited and concentrated in short-term maturities, and the government securities market remains shallow. To deepen the debt market for government securities and facilitate domestic financing, we successfully issued a 10-year domestic bond in September 2023. We will strengthen our operational capacity, strengthen our cash management practices, take steps to further develop the primary dealer system, improve inter-agency coordination, develop and operationalize a new platform for retail investors by summer 2024, and take steps to support external investors' ability to access the domestic government debt market. To preserve debt sustainability, our borrowing strategy will prioritize grants and donor financing on concessional terms.

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

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

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

- **We are strengthening our public investment management (PIM) framework to enhance the sustainable execution and quality of public investment and close infrastructure gaps.** Guided by the 2019 Public Investment Management Assessment (PIMA) report recommendations, and the 2023 Climate Public Investment Management Assessment (C-PIMA), we are strengthening the planning, allocation, and implementation stages of our PIM cycle, taking into consideration climate and environmental implications (reform area RM7-9, section F). Building on the progress achieved so far: (i) from 2024, we are applying the Regulation 684 for all new eligible public investment projects considered for funding under the MTBF and State budget; and (ii) on this basis we are developing a registry for investment projects approved for the implementation by the State budget, externally funded projects, and developmental funds, and make all supporting documentation public.

- **Strengthen the unitary pay system in the budgetary sector.** We plan to reform the public salary structure, based on a common understanding among all stakeholders, and affordability. Towards this objective, and leveraging IMF technical assistance recommendations, we will prepare a technical proposal for a comprehensive medium-term salary structure reform to contain wage bill pressures, while ensuring efficient service delivery (including reducing the number of reference values) and illustrating the fiscal implications of different scenarios. The analysis will look at the unitary pay system in the budgetary sector, with a medium-term perspective synchronized with the MTBF process, to improve the wage-compression ratio and address critical staffing needs. Going forward, salary increases will take into account a well-defined set of criteria, aligning titles and functions.

- **Ensure the sustainability of the pension system.** Our pension system has significant challenges, including a narrow contribution base, an ageing population, and falling replacement ratios. Beginning January 2024, we have started the review of certain beneficiary groups, and effective July 1st, the retirement age for women will be extended by six months, reaching age 61. In consultation with the World Bank, we intend to continue broadening the contribution base to address sustainability risks. Over the medium-term, we will review the old-age and disability pensions for individuals currently or previously employed, and we will continue to raise the retirement age every six months, for women until reaching age 63 and men age 65.

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

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

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

B. Monetary Policy

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

- ***Policy rates.*** Forward-looking and data-dependent monetary policy helped to contain the second-round effects of inflation and anchor expectations. After peaking in October 2022, headline inflation started to decline sharply, stabilizing withing the NBM target band since October 2023, core inflation has surprised on the upside driven partly by the transitory impact of higher taxation on prices of some items, but was compensated by lower regulated prices. The NBM started an easing cycle in December 2022, gradually reducing the policy rate from 21.5 percent to 3.6 percent in May 2024. The NBM also relaxed bank reserve requirements in domestic currency and FX by 1 ppt and 2 ppts, respectively, in November 2023, and then by 4 percentage points gradually in May 2024. Our future policy rate decisions will be carefully calibrated and guided by a frequent assessment of the inflation outlook, as well as through analysis of the balance of risks, given the highly uncertain environment. We will also continue reviewing the setting of other policy tools, and gradually normalize reserve requirements, to further support private sector credit.

- ***Foreign exchange interventions.*** The Moldovan leu depreciated against the US dollar by around 2 percent since end December 2023 though is roughly flat against the euro; while gross foreign exchange reserves increased to about USD 5.4 billion by end-April 2024, more than reversing the losses at the onset of the war. The NBM stands ready to allow necessary exchange rate adjustment and will continue to manage reserves conservatively and continue to limit interventions to counteracting excessive exchange rate volatility, following a rule-based approach, while also actively communicating its intervention strategy to the market.

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

C. Financial Sector Policies

17. The banking sector remains resilient, but risks persist. Banks continue to be adequately capitalized with aggregate capital adequacy at 29 percent as of end-February 2024, while nonperforming loans declined to 5.5 percent of total loans. The liquidity coverage ratio, at 313 percent, exceeded the prescribed 100 percent limit by a large margin reaching its pre-war level. Total deposits have been gradually increasing, currently about 30 percent above the pre-war level, while the share of FX in total deposits marginally declined to 36 percent. Profitability remained strong, although it recently declined as a result of monetary policy normalization which has reduced net interest margins. Return on equity and return on assets were 16.2 percent and 2.8 percent at end-December. Geopolitical and macroeconomic risks remain high and were they to materialize they might translate into weaker profitability and deposit outflows.

18. Banks' lending to households has been recovering after a significant contraction in 2022/23, and we monitor the potential buildup of systemic risk. The growth rate of household lending accelerated since Q3 2023, as a result of easing monetary policy conditions, easing of lending standards, and base effects. On the other hand, still slow pass-through of lower policy rates to lending rates, weak demand amid uncertain economic outlook have contributed to the slow credit growth to businesses. Regulations for responsible lending and the imposition of loan-to-value (LTV) threshold of 80 percent and a debt service-to-income (DSTI) threshold of 40 percent were effective, and we are evaluating their initial calibration to gradually adjust them as needed. With bank credit growth below its long-term trend, we maintained the counter-cyclical buffer rate at zero, and the systemic risk buffer at one percent. In October last year we released the systemic risk buffer for household exposure driven by the improvement of credit quality indicators of households and the disinflationary conditions with less negative impact on the real income of the population. We have renewed our request for a Financial Sector Assessment Program (FSAP) as soon as possible, which would help us take stock of progress in our reforms in the financial sector.

19. We remain committed to further strengthening the institutional autonomy and governance of the NBM, in consultation with the IMF. The NBM's independence remains critical for ensuring monetary policy credibility and effectiveness, and for preserving macroeconomic and financial stability. In that respect, we have submitted to Parliament a package of amendments that include: (i) granting the NBM operational autonomy over its assets; (ii) adjusting the administrative procedures code to eliminate inappropriate deadlines for the NBM supervision; and (iii) adding an explicit mandate for financial stability and macroprudential policy of the NBM (**prior action**). Furthermore, in line with the recommendations of the March 2024 IMF mission on autonomy and governance of the NBM, and in consultation with IMF staff, we will present to Parliament a set of amendments to the NBM law to further strengthen the autonomy and governance of the NBM (**new end-November 2024 SBs**). These amendments will focus on three areas: (i) strengthening procedures related to changes in the members of decision-making bodies of NBM, including procedural safeguards, and checks and balances; (ii) fine-tuning governance and decision-making structures of the NBM, especially the qualifications, membership, tenure, staggering and mandate of the executive and supervisory board members, and (iii) clarifying legal provisions on NBM's accountability to Parliament, and strengthening public communications. We have also requested a Central Bank Transparency Review of the NBM, to be conducted by the IMF and concluded in the Fall 2024. We will discuss the key findings and recommendations and include the related follow up actions into the program at the time of the next reviews. Together with other state institutions, we will agree on a memorandum of understanding clarifying the responsibilities in the process of asset recovery in the context of the 2014/15 bank fraud, by **end-June 2024** (see **¶35**).

20. We are fully committed to preserving recent banking sector reforms. To this end, we will maintain our current tight regulatory standards and ensure that preservation of the actions undertaken in the process of the removal of shareholders that do not fulfill the fitness and probity criteria—including those acting in concert—is enforced. We are determined to bring perpetrators of the fraud to justice through an independent and comprehensive investigation, prosecution, and judicial process. In this context, we recognize financial stability risks arising from legal proceedings against banks as legal entities. Against this background, we are strengthening our crisis management arrangements by complementing discussions on financial stability and fiscal risks in the banking system at the level of the National Committee for Financial Stability (NCFS) with also considering these risks at the level of the Supreme Security Council. We have prepared—and will discuss if needed in the NCFS—comprehensive contingency plans to: (i) ensure that all provisions and capital charges applied to banks due to pending legal decisions are in line with IFRS and NBM regulations; (ii) require credible and time-bound capital restoration plans in cases where capital falls below prudential limits alongside other supervisory corrective actions; and (iii) if necessary, implement resolution actions identified by competent authorities to preserve financial stability in line with the BRRL. We will take decisive steps and make good faith efforts towards resolving the Victoriabank legacy. This may help boost credit and attract foreign investment.

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

22. We pledge to bolster financial safety nets. We keep improving our stress-testing framework. We have introduced a financial stability dashboard to monitor liquidity pressure at monthly frequency, and will introduce LCR and maturity ladder liquidity stress tests (for the 2025 financial stability report). We will continue enhancing the DGF's capability to pay out insured deposits in case of future bank failure, including by conducting regular stress tests for both the DGF and banks. We keep on strengthening the resolution preparedness of the NBM, including by clarifying the framework for the implementation of the Bridge Bank Tool and Bail-in tool, the preparation of operational plans, and enhancing inter-agency cooperation. We have updated our internal and external regulations for Emergency Liquidity Assistance (ELA) in line with best practices. Following the recommendations from the IMF technical assistance, we will start discussions on amending relevant laws to clarify types of government guarantees and conditions under which they could be granted in the context of ELA.

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

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

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

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

- ***Financial consumer protection.*** We entrusted the NCFM with the financial consumer protection mandate, including well-defined financial consumer protection responsibilities for all financial services from July 2, 2023 (for banking services starting January 1, 2024). We have developed the concept note for the institutional architecture underpinning the reform, which clearly defines the objectives and responsibilities between the NBM and NCFM. The legislation amendments necessary for the reform were approved by the Parliament on June 30, 2023, and the NCFM approved the new organizational chart to reflect better the new competences. The NCFM is currently reviewing the regulatory framework on financial consumer protection by aligning it to EU acquis and strengthening its institutional competences. We also ensured adequate funding of the NCFM to perform its new mandate.

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

26. We are taking steps towards improving financial inclusion. To this end, the NBM is actively modernizing the financial market infrastructure to facilitate cashless, cheaper payments, and we launched the instant payment scheme in March 2024, with over 100, 000 users accounts being activated by mid-April, and plan to extend it to cover also person-to-business, business-to-person, and person-to-government transactions by September 2024. We are also preparing the PSD2-based open banking system to be launched in February 2025, including by developing and updating the necessary legislation. In light of these advances, we have revised amendments to the law 114/2012 to ensure licensing, adequate supervision, and fair competition between EU-licensed and national payment service providers and payment initiation service providers. We are working towards joining the Single Euro Payments Area (SEPA), and we have submitted our application in February this year. As recommended by the FSSR, we updated the primary legal framework for online identity verification system (e-KYC procedure) effective July 1, 2023, which will improve customer services and use of regulated financial services. This will also increase the reach and effectiveness of our AML/CFT regime. The NBM’s fintech division proactively engages with the private sector in order to develop new products based on the instant payments infrastructure that leverage digital services and provide modern, fast, efficient and inclusive financial services for consumers and SMMEs. We are committed to setting up an inter-agency committee with a mandate to develop, implement, and monitor a National Financial Inclusion Strategy (NFIS) with support from the WB (**end-June 2024 SB**). The diagnostic phase is ongoing and we expect to formalize the governance structure for the NFIS and the action plan by **end-2024.**

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

D. State Owned Enterprises and Energy Sector Reforms

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

- We adopted a state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization, or liquidation, as well as plans to strengthen their governance in December 2022. The rationales of the strategy, include: (i) supporting national economic interests; (ii) maintaining critical infrastructure; (iii) producing strategic goods and services; and (iv) providing basic social services.

- We completed a triage of SOEs owned by the central government, in line with the approved state-ownership strategy (**end-December 2023 SB**), and following the adopted methodology that specified the criteria for classification of all SOEs into five categories, those that will: (i) remain under state management, (ii) be privatized in the short-term, (iii) be privatized after certain reforms, (iv) be restructured into public institutions, and (v) be liquidated. To improve transparency of government actions, we will publish the approved triage on the government's website. In parallel, we are addressing legal impediments to the implementation of the SOE ownership strategy related to the delineation of public and private assets. We will develop a strategy for the SOEs at central government level that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks, (ii) a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss-making (**end-September 2024 SB**). We also intend to propose a privatization strategy for small and large enterprises and set economic benchmarks to identify the most opportune conditions for launching de-nationalization efforts.

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

29. Safeguarding energy security remains our priority amidst still high risks. We have initiated preparations for the 2024–25 Heating Season, and we plan to approve it by July 2024. As in previous year, the plan will consider different scenarios based on the natural gas availability and electricity deliverables, based on which we will identify appropriate preventive measures to reduce and mitigate the impact of gas curtailment. We have also taken measures to reduce energy consumption and improve energy efficiency.

Natural Gas

- With the EUR 300 million EBRD credit line and usage of fiscal buffers, we accumulated sufficient gas reserves for the last winter season. An amendment of the Loan agreement between the Republic of Moldova and the EBRD to implement the "Security of natural gas supply" project secured a new tranche (no. 3) of EUR 165 million in October 2023, supplemented with EUR 34 million grant from the Norwegian Government under the NANSEN program. Following the stabilization of the natural gas market, and considering that Energocom built sufficient reserves and liquidity for the coming heating season, the company repurchased in the period of September-November 2023 MDL 1 billion of its own shares based on the Commission for Emergency Situations Decision from September 2023. In 2024 additional repurchases worth MDL1.3 billion is expected.

- Unbundling of transmission system operators (TSO) started in September 2023. LLC "Vestmoldtransgaz" has been designated as the operator of the natural gas transmission system in the Republic of Moldova, and in February 2024, it was preliminary certified by ANRE according to the ISO model. In line with the provisions of the Law on natural Gas, ANRE, being independent authority from the Government, shall adopt the decision regarding final certification by end-August 2024, taking into account the opinion of Energy Community Secretariat.

- As a member of the EU's energy platform, we are leveraging regional cooperation to diversify gas imports and address infrastructure bottlenecks and inefficiencies. Specifically, in line with the South-East European regional action plan of the EU energy platform, we ensured that customs regulations enable Moldova to operationalize virtual reverse pipeline flows. As a result, during 2023, a significant amount of gas was transported through this regime, mostly through the Trans-Balkan pipeline, which helped to increase energy security and the preparation for the winter season. We have adjusted the regulatory framework to ensure closer and faster alignment of domestic tariffs with imported prices.

Electricity

- The war continues to create supply and price uncertainties. We were able to secure electricity purchases with MGRES—the electricity producer owned by the Russian company Inter-RAO and located in the Transnistrian region—through end-2024 at a beneficial price. Diversification of electricity supply sources was achieved by concluding several bilateral contracts with producers and suppliers from Romania and Ukraine. Moreover, the registration of the state-owned company JSC "Energocom" on the OPCOM electricity market in Romania has secured all the necessary instruments for the purchase from spot market and other sources. However, interconnection capacity with Romania remains constrained until additional transmission lines have come online. We also engaged economic agents and households to save energy during peak hours to help balance the demands on the grid. A voucher program for low-income households to purchase efficient appliances aims to reduce electricity demand.

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

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

E. Rule of Law and Anti-Corruption

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

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

32. We will grant sufficient capacity, resources and legal powers to APO to effectively detect, investigate, and prosecute high-level corruption. We revised the institutional anti-corruption framework in July 2023, with APO mandated with both investigation and prosecution of high-level corruption and NAC responsible for low and mid-level corruption. We amended the Criminal Procedure Code to ensure that APO's investigative jurisdiction covers: (i) all types of corruption-related offences listed in the UN Convention against Corruption as well as false asset declarations, and (ii) all high-level officials defined in the Article 123(3) with some exceptions of lower-level officials. The law has entered into the force on March 1 and the transfer of ongoing criminal cases in line with the revised investigative jurisdiction was completed on March 31, 2024 (**fourth review prior action**). As special investigative techniques, such as wiretapping and surveillance, are critical for effective investigation of corruption offences, investigative officers seconded to APO were granted these powers by legal amendments adopted in November 2023. To ensure that APO has sufficient capacity to deliver on the mandate to investigate high-level corruption, we assessed APO's capacity needs, including required equipment, premises and staffing (prosecutors, investigative officers, counsels and experts). This assessment informed the budgetary allocation for APO in the national budget for 2024, providing APO with an independent budget using its separate budgetary code (**end-June 2023 SB**, met). We adopted a new organizational structure for APO, granting 54 new staff positions and are committed to increase the staffing autonomy of APO required to promote its operational independence. To this end, after a legal assessment of the institutional and financial impact, we will adopt legal amendments in line with the constitutional provisions and the ECHR (**November 2024 SB**) to grant APO the right to (i) hire its own investigative officers along with the current secondment procedure and (ii) participate in the competition and interview process for the transfer or promotion of prosecutors to APO for appointment by the SCP. On questions of operational independence and staffing, APO may, if needed, raise questions or issues related to the transfer or promotion of prosecutors in the Anti-Corruption Platform or via the Ministry of Justice. We will grant APO separate functional premises by end-June 2024.

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

34. Corruption enforcement is increasingly focusing on high-level corruption and recovering criminal proceeds. In 2023, NAC and APO have submitted to court over 140 corruption cases involving one former President, one former Prime Minister, two former ministers, one deputy minister, eight former and current members of Parliament, former director of NAC, three prosecutors, one judge, one former governor of the NBM and other high-level officials. APO obtained 130 sentences in the first instance court, including confiscation orders for over MDL 1.7 million. Recently APO prosecutors obtained an appellate adjudication in a Bank Fraud case, sentencing in absentia a former high-level official to 15 years imprisonment and ordering over MDL 5.2 billion confiscation. We are also developing a database of seized assets at the Criminal Assets

Recovery Agency, allowing for more transparency into the management of confiscated assets and the types of enforcement measures that have been taken following final court decisions. Among the priorities moving forward will be the intensification of scrutiny of high-level officials' sources of wealth, including assets held abroad, leveraging the asset declaration regime and the illicit enrichment offence. We are working on amendments to the legal framework for asset recovery, with a view to address gaps in responsibilities and accountability and streamline and shorten processes and procedural deadlines. An important focus will be on (social reuse of confiscated assets). Our aim is to send these amendments to parliament this summer.

35. We remain resolute in achieving progress on asset recovery from the 2014 banking fraud through criminal justice efforts and channels and cooperation with foreign counterparts, including on the establishment of joint investigative teams and task forces. A new national program for criminal asset recovery 2022–2027 has been adopted and we are progressing in implementing associated action plan. In order to improve coordination and clarify responsibilities regarding the asset recovery following the 2014–15 bank fraud among the relevant state agencies, we will prepare an MoU describing and delineating responsibilities among institutions involved in the asset recovery process, and we will publish it by end-June 2024. The MoU will include a Steering Committee charged with executive coordination, and a high-level Monitoring Committee, chaired by the Prime Minister.

F. Building Climate Resilience

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

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

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

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

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

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

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

- At the same time, we are advancing the energy transition by preparing the energy market and the network infrastructure to facilitate the onboarding of additional renewable resources to reach the NDC target of 27 percent of renewable energy by 2030 (from the current 24 percent). The MoE has published the Indicative timetable for the planned tendering procedures for the offer of large eligible producer status for the period 2024–2025: allocated capacity is Wind—105 MW; Solar—60 MW. In addition, ensuring the financial viability of the sector in light of substantial infrastructure investment needs will help encouraging private investment in the sector. To avoid fiscal risks, we will carefully sequence measures ensuring the absorptive capacity is available as new production capacity becomes available. Following cost-recovery principles and gradual phasing-out of tax expenditures, while targeting income support to the most vulnerable consumers, will be important steps in this direction. To reduce the number of energy vulnerable consumers and reduce energy consumption, the EU-funded 'Rabla for Household Appliances' programme, implemented by UNDP Moldova and with a total budget of around $5.8 million, provided voucher-based financial support for LED light bulbs and up to 80% of the cost of a refrigerator, electric cooker or washing machine. To date, more than 5700 vouchers have been used for a major appliance and more than 29000 for LED bulbs.

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

- By the second review:
  - In light of the important reform initiatives, which will require substantial infrastructure investment, we will determine the cost-recovery rate for the provision of electricity and natural gas (fully reflecting operational and capital costs including for future investments and reforms identified in the Energy Strategy), (i) identifying any discrepancy between tariff and so defined cost recovery, considering tax expenditures, (ii) undertake a distributional impact assessment, and (iii) close any gap by adjusting the tariff or by compensating the operating company transparently from the budget (**RM4**). We will seek support from development partners.
  - From the 2024-25 heating season onwards, we are working in coordination with the World Bank and other development partners, and with the view to ensure that the price signals are fully preserved and incentivize efficient consumption, we will (i) assign the administration of payment provision from energy providers to the Ministry of Labor and Social Protection, and (ii) delink the provision of support under the EVRF from current energy consumption by providing targeted cash transfers to beneficiaries (**RM5**).
- By the third review, based on the results from the ongoing pilot project (supported by the UNDP) collecting information through smart meters, we will conduct a review for tariff differentiation options (e.g., day-night tariff) as a tool for managing demand fluctuations with the aim of facilitating balancing, also in light of renewable energy onboarding (**RM6**). The results and recommendations of the review will be summarized in a report.

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

- By the second review, we will include climate change impact and vulnerability assessment in the project appraisal (and project selection) methodologies (**RM7**). This will be done in line with the C-PIMA recommendations by amending Regulation 684.

- By the third review, we will:

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

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

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

  - For the first review, we have

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

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

  - By the fourth review, we will:

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

G. Economic Statistics

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

H. Program Monitoring

39. The ECF/EFF and RSF-supported programs will be monitored through semi-annual reviews. A complete schedule of reviews is set out in the accompanying staff report. The QPCs, inflation consultation clause (ICC), and ITs have been extended to include targets through June 2025. A prior action related to the independence of the NBM has been proposed for the completion of this review. The QPCs, ICC, and ITs are set out in Table 1, as specified in the TMU attached to our Letter of Intent dated June 13, 2024. The prior action, along with the SBs, are set out in Table 2. The RSF reviews are based on the evaluation of implementation of the RMs set out in Table 3.

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

	2023										2024								2025	
	June			September [1/]			December				March 1/				June	September [1/]	December		March 1/	June
	Prog. Target CR 23/6	Adj. Target	Actual	Prog. Target CR 23/6	Adj. Target	Actual	Prog. Target CR 23/6	Adj. Target	Actual	**Status**	Prog. Target CR 23/152	Adj. Target	Actual	**Status**	Prog. Target CR 23/428	Prog. Target CR 23/428	Prog. Target CR 23/428	Proposed	Proposed	Proposed
1. Quantitative performance criteria [1/]																				
Ceiling on the cash deficit of the general government	7,250	7,250	7,163	10,890	10,890	8,240	18,527	18,527	15,572	**Met**	4,580	4,580	2,342	**Met**	6,105	9,281	15,790	16,593	4,290	6,250
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) [2/]	2,946	2,659 [5/]	4,873	3,046	2,760 [5/]	4,908	3,146	2,752 [5/]	5,432	**Met**	3,300	3,300	**5,437**	**Met**	3,538	3,776	4,014	4,014	4,077	4,141
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	**Met**	0	0	0	**Met**	0	0	0	0	0	0
3. Indicative targets																				
Ceiling on the general government wage bill	12,550	12,550	12,202	18,630	18,630	17,502	25,618	25,618	24,404	**Met**	6,275	6,275	6,408	**Not met**	14,032	20,417	27,800	27,549 [/6]	7,250	14,833
Floor on targeted social spending undertaken by the general government [3/]	4,717	4,717	3,965	4,882	4,882	4,142	5,989	5,989	4,897	**Not met**	2,694	1,268	1,435	**Met**	1,728	1,807	2,495	2,495	840	1,230
Floor on developmental spending undertaken by the general government [4/]	14,790	14,790	18,786	22,980	22,980	29,066	34,940	34,940	44,246	**Met**	7,906	7,906	9,627	**Met**	17,436	27,091	41,191	41,191	9,461	21,560
4. Inflation Consultation Bands (in percent)																				
Outer Band (upper limit)	16.0	16.0		11.5	11.5		11.0	8.0			8.0	8.0			8.0	8.0	8.0	8.0	8.0	8.0
Inner Band (upper limit)	14.5	14.5		10.0	10.0		9.5	6.5			6.5	6.5			6.5	6.5	6.5	6.5	6.5	6.5
Center point	13.0	13.0	13.2	8.5	8.5	8.6	8.0	5.0	4.2	**Met**	5.0	5.0	3.9	**Met**	5.0	5.0	5.0	5.0	5.0	5.0
Inner Band (lower limit)	11.5	11.5		7.0	7.0		6.5	3.5			3.5	3.5			3.5	3.5	3.5	3.5	3.5	3.5
Outer Band (lower limit)	10.0	10.0		5.5	5.5		5.0	2.0			2.0	2.0			2.0	2.0	2.0	2.0	2.0	2.0

1/ Indicative targets for March 2023, September 2023, March 2024, September 2024, and March 2025.

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

3/ Includes Energy Vulnerability Reduction Fund (EVRF), heating allowance, payments under Ajutor Social and unemployment insurance programs.

4/ Includes health, educational, and infrastructure spending.

5/ In line with TMU ¶22.

6/ The IT ceiling is proposed to be revised to align with the approved budget

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

	Measure	Rationale	Timeframe	Status
Prior Actions				
1	Further strengthen NBM's independence, including through submission to Parliament of a package of amendments stating derogatory provisions from the administrative procedures code to eliminate inappropriate deadlines for NBM's supervision; granting the NBM operational autonomy over its assets; and adding an explicit mandate for financial stability and macroprudential policy of the NBM.	Strengthen the institutional autonomy and governance of the NBM	Prior Action	
Structural Benchmarks				
Anti-Corruption and Rule of Law				
2	Adoption of the law on establishment of anti-corruption adjudication infrastructure, including a credible selection process of anti-corruption judges , which will promote appointment of persons with impeccable reputation and high professional and moral qualities.	Strengthen anti-corruption institutions	end-March 2024	Not met. Reset for end-September 2024
3	Adopt legal amendments to grant APO autonomy in hiring of staff		end-November 2024	New SB
Fiscal Governance				
4	Extend the tax expenditure analyses to include excise, customs duties, and real estate tax.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end-December 2023	Met
6	Implement an automated tax filling compliance program to improve on-time filing of tax returns, including by assigning penalties for late- or non-filing.	Strengthen tax administration reforms and revenue mobilization	end-December 2023	Met
7	Prepare a proposal identifying tax expenditures to be phased out based on cost-benefit analysis.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end- December 2024	
8	Presenting fiscal accounts in GFSM2014 format	Strengthen accuracy of general government data	end-April 2025	New SB
9	With IMF TA, prepare a report summarizing the findings of a review of the legislative framework and practices of tax audit	Strengthen tax administration reforms and revenue mobilization	end-January 2025	New SB
10	Develop a plan for modernization of tax audit in line with the findings of the report		end-April 2025	New SB
Financial Sector Oversight				
11	Further strengthen NBM's independence, including by presenting to Parliament a package of amendments stating derogatory provisions from the administrative procedures code to eliminate inappropriate deadlines for NBM's supervision; granting the NBM operational autonomy over its assets; and adding an explicit mandate for financial stability and macroprudential policy of the NBM.	Strengthen the institutional autonomy and governance of the NBM	end-December 2023	Not met. Reset as prior action for fifth review
12	The NBM will prepare and adopt the remaining necessary secondary legislation for Pillar II and III of Solvency II.	Facilitate implementation of the Solvency II insurance framework	end-September 2024	
13	Develop an inter-agency committee with a mandate to develop, implement, and monitor National Financial Inclusion Strategy (NFIS).	Improve financial inclusion	end-June 2024	
14	Submit to Parliament a package of legislative amendments to strengthen the NBM laws in consultation with IMF staff and in line with the March IMF mission recommendations on (i) strengthening procedures related to changes in the members of decision-making bodies of NBM, including procedural safeguards, and introducing checks and balances; (ii) fine-tuning governance and decision-making structures of the NBM, especially the qualifications, membership, tenure, staggering and mandate of the executive and supervisory board members, and (iii) clarifying legal provisions on NBM's accountability to Parliament, and strengthening public communications.	Strengthen the institutional autonomy and governance of the NBM	end-November 2024	New SB
SOE and Regulatory Framework Reforms				
15	Complete a triage of SOEs owned by the central government, in line with the approved state-ownership strategy.	Improve SOE governance and reduce fiscal risks	end-December 2023	Met
16	Develop a strategy for the all the SOEs at the central government level that includes: (i) a framework for monitoring financial performance and mitigating related fiscal risks, and (ii) a plan to rationalize the number of SOEs that are in non-strategic sectors or are loss making.	Improve SOE governance and reduce fiscal risks	end-September 2024	

Table 3. Moldova: RSF Reform Measures

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

Source: IMF Staff

Attachment II. Technical Memorandum of Understanding

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

A. Quantitative Program Targets

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

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

Indicative targets are set on:

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

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

B. Program Assumptions

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

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

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

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

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

C. Institutional Definitions

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

D. Program Definitions

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

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

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

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

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

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

6. For program monitoring purposes, the stock of reserve assets and reserve liabilities of the NBM shall be valued at program exchange rate, as described in paragraph 3 above. The data source for gross reserves and liabilities is the Monetary Survey published by NBM in Moldovan Lei, from which the adjustments for program purposes are made. On this basis, and consistent with the definition above, the stock of NIR of the NBM amounted to US$ 3708.57 million as of September 30, 2021.

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

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

9. The **ceiling on the cash deficit of the general government** is defined, as the sum of net credit of the banking system to the general government (as defined in paragraph 7), the general government's net placement of securities outside the banking system, other net credit from the

[4] For the calculation of the net credit of the banking system to general government the following accounts will be excluded: 1711, 1712, 1713, 1731, 1732, 1733, 1735, 1761, 1762, 1763, 1801, 1802, 1805, 1807, 2264, 2709, 2711, 2717, 2721, 2727, 2732, 2733, 2796, 2801, 2802, 2811, 2820 and the group of accounts 2100.

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

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

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

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

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

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

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

13. For the purposes of the program, **external payments arrears** will consist of all overdue debt service obligations (i.e., payments of principal or interest, taking into account contractual grace periods) arising in respect of any debt contracted or guaranteed or assumed by the central government, or the NBM, or any agency acting on behalf of the central government. The **ceiling on accumulation of external payments arrears** shall apply on a continuous basis throughout the period of the arrangement. It shall not apply to external payments arrears arising from external debt being renegotiated with external creditors, including Paris Club creditors; and more specifically, to external payments arrears in respect of which a creditor has agreed that no payment needs to be made pending negotiations. Additionally, there are outstanding amounts on a debt owed to the Russian Federation that stem from old commercial debt contracted in 2001 and held in an escrow account[5] at the NBM, as noted in MEFP paragraph 8. For the purposes of this performance criterion, nonpayment of external debt service to Russia will not give rise to arrears when the Central Government and the NBM cannot pay or settle based on the contractual terms solely due to factors outside the debtor's control (e.g. the transfer of funds being rejected owing to intermediary financial institutions' compliance policies, sanctions or inability to identify the counterparty), as long as the debt service payments have been paid in full into an escrow account held by a third-party by the contractual due date, taking into account any contractual grace period. Funds in such escrow accounts will be used only to satisfy the related external debt obligations, and their use or withdrawal for other purposes would constitute a breach of the PC.

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

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

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

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

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

E. Inflation Consultation Mechanism

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

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

Inflation Consultation Bands

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

F. Adjusters

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

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

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

22. The **floor on NIR** of the NBM will be lowered by any shortfall in the official external grants and loans up to the equivalent of US$363 million and US$29 million in 2024 and 2025, respectively, valued at the program exchange rates.

Programmed External Financing Flows 1/
(Cumulative from the beginning of the calendar year)

	2023				2024				2025			
	March 2/	June	September 2/	December	March 2/	June	September 2/	December	March 2/	June	September 2/	December
	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target
Programmed external financing flows to adjust the floor on the NIR target (US$ million)	170	341	511	681	13	90	207	363	0	29	29	29
Programmed external financing flows to adjust the ceiling on the cash deficit (MDL million)	3,505	7,010	10,515	14,020	1,696	3,392	5,088	6,784	0	512	512	512

1/ Excluding IMF financing.

2/ Indicative targets for March and September.

G. Reporting Requirements

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

Table 1. Moldova: Data to be Reported to the IMF	
Item	**Periodicity**
Fiscal data (to be provided by the MoF)	Monthly, within three weeks of the end of each month
General budget operations for revenues, expenditure, and financing (economic and functional classifications)	
General government wage bill at the level of budgets (state budget, local budgets, Social Insurance Fund and Health Insurance Fund) and functional groups	Monthly, within three weeks of the end of each month
Detailed breakdown of salaries of all SOEs and JSCs, by company.	Annually (2019, 2020 and 2021), and quarterly starting Q1 2022
Number of budgetary sector positions and employees at the level of budgets (state budget, local budgets, Social Insurance Fund and Health Insurance Fund) and functional groups	Monthly, within four weeks of the end of each month
Social expenditure including pensions, support for unemployment, the *Ajutor Social* (social assistance program), heating allowance for the cold season, and health expenditures from the Health Insurance Fund.	Monthly, within three weeks of the end of each month
Public and publicly guaranteed domestic debt, by instrument, and creditor:	
- Central government domestic debt	Monthly, within three weeks of the end of each month
- Local government domestic debt	Quarterly, within six weeks of the end of each quarter
Debt stock outstanding for all SOEs and JSCs, by company (to be provided by the PPA)	Annually (2019, 2020 and 2021), and quarterly starting Q1 2022
Domestic arrears, by creditor	Monthly, within three weeks of the end of each month
Arrears outstanding for all SOEs and JSCs, by company (to be provided by the PPA)	Annually (2019, 2020 and 2021), and quarterly starting Q1 2022
Onlending to SOEs by type of onlending projects and by external creditors (including loan disbursements and repayments).	Monthly, within three weeks of the end of each month
Breakdown of the borrowing by SOEs and JSCs, between the external project loans that are on-lent (transferred) directly from the budget (central government) to local authorities / line ministries, and other borrowing from commercial banks.	Monthly, within three weeks of the end of each month

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

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

Table 1. Moldova: Data to be Reported to the IMF (concluded)	
Item	**Periodicity**
Public debt data (to be provided by MoF)	
Information on all new external loans contracted by the general government or guaranteed by the government.	Monthly, within three weeks of the end of each month
Total public and publicly guaranteed outstanding debt stock, outstanding debt service due, and debt service paid, by creditor (in line with the new Debt Template titled "Decomposition of Public Debt and Debt Service by Creditor" (shared with the Debt Department at MoF).	Quarterly, within six weeks of the end of each quarter
Disbursements of grants and loans by recipient sector (state/local/SOEs), and by creditor	State: Monthly, within three weeks of the end of each month Local/SOEs: Quarterly, within three weeks of the end of each quarter
Other data (to be provided by NBS, unless otherwise stated)	
Overall consumer price index.	Monthly, within two weeks of the end of each month
National accounts by sector of production, in nominal and real terms.	Quarterly, within three months of the end of each quarter
Export and import data on value, volume, and unit values, by major categories and countries.	Monthly, within two months of the end of each month
Detailed financial performance of all state-owned enterprises and joint stock companies operating at the central government level, in line with the agreed input template (from the Public Property Agency).	Annual, within two months following the end of each year (unaudited), and no later than 6 months following the end of each year (audited).

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

June 13, 2024

FIFTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS, FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY—UPDATE MAY 22, 2024

This update to the RSF Assessment Letter—Moldova[1] (dated November 21, 2023)—highlights relevant changes that have occurred since the issuance of the Assessment Letter.

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

1. **Recent extreme weather underscores Moldova's vulnerability to climate change.** While the 2023/24 winter heating season was relatively benign, Moldova experienced periods of extreme weather, including heavy snows and winds from Storm Bettina in November 2023 that resulted in three deaths and disrupted power and transport, as well as a major blizzard in early January 2024. Just three months later, Moldova set a record for high temperature in March, with the village of Sîngerei reaching 29.7°C. The heatwave, which extended into April, raises potential threats for agriculture, which has been impacted by a series of droughts in recent decades, most recently in 2020 and 2022. With as much as 80 percent of Moldova's poor population living in rural areas, and the majority of these deriving their income and food from the agriculture sector, climate-induced extreme weather events risk triggering increased poverty and food insecurity.

[1] Moldova—World Bank Assessment Letter for the Resilience and Sustainability Facility, November 21, 2023

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

2. **Moldova has initiated implementation of its National Adaptation Program, supported by ongoing efforts to align with European Union (EU) Directives.** The National Climate Change Adaptation Program until 2030 and its Action Plan were adopted in August 2023 and the Ministry of Environment, with support from the United Nations Development Programme, is leading efforts to drive implementation. The program aims to ensure the integration of adaptation measures into sectoral policies and sets objectives to increase climate resilience of six priority sectors: agriculture, health, transportation, energy, water, and forestry. Continued progress in aligning national climate and environmental legislation with the EU will support implementation of the Adaptation Program. As of January 1, 2024, Moldova is a member of the EU's Civil Protection Mechanism, integrating Moldova into a continent-wide network that provides access to human resources and state-of-the-art equipment for disaster response with the potential to reduce response time, limit damage, and facilitate a more rapid recovery from emergencies. The Law on Climate Actions (*see discussion in Section C below*) establishes key mechanisms for implementing adaptation and resilience measures as set out in the National Adaptation Program. In addition, a new Forest Code (approved by Parliament in March 2024) introduces a dual classification system for forests that differentiates "special protection forests" from "production forests" and strengthens management and oversight mechanisms. By supporting sustainable forest management practices, the code is expected to contribute to reducing risks of flooding, drought, erosion, and fire. Despite such progress, an institutional assessment carried out as part of the forthcoming Country Climate and Development Report (CCDR) found that implementation of adaptation measures, particularly at the sector level, remains limited by lack of budget alignment and capacity constraints. To bolster Moldova's financial resilience against future natural disasters, concerted efforts are required. Existing funds fall short of meeting post-disaster expenses, leaving an estimated annual shortfall of US$146 million.

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

3. **Moldova has adopted a climate framework law, which makes its climate targets binding, provides the legal and institutional basis for implementation, and introduces a carbon pricing mechanism.** The Law on Climate Actions, approved by Parliament in April 2024, anchors Moldova's Nationally Determined Contribution (NDC) commitments, and sets a long-term goal of climate neutrality by 2050. The law provides a basis for the implementation and evaluation of policies and measures for the GHG emission reduction and stablishes mechanisms for more efficient participation of stakeholders in the planning, implementation, and evaluation of climate policies and measures. In addition, the law establishes the principle for pricing carbon emissions and provides the legal basis to develop the mechanisms for

emissions monitoring, reporting, and verification (MRV), needed to support adoption of an emissions trading system (ETS) or a carbon tax. The law establishes a coordination mechanism, the National Commission on Climate Change (NCCC), responsible for the coordination, promotion, and oversight of climate change related activities necessary to achieve the targets of the United Nations Framework Convention on Climate Change and the Paris Agreement.

4. Moldova's continued progress on the energy transition is underpinned by the EU acquis process. The Low Emission Development Program (LEDP) 2030 came into force on January 1, 2024. It systematizes policies and sectoral action plans aimed at achieving the GHG reduction targets specified in the updated NDC considering commitments set forth in the EU-Moldova Association Agreement. The draft Integrated National Energy and Climate Plan (NECP) 2025–2030, submitted to the Energy Community Secretariat in December 2023,[2] provides a roadmap for achieving Moldova's short-term decarbonization objectives along with a perspective to 2050, in the context of Moldova's participation in the Energy Community. The NECP incorporates previously separate plans, including the National Renewable Energy Action Plan and the National Energy Efficiency Action Plan. Steps have been taken to enhance governance and competition in the energy sector, which will pave the way for investment in renewable energy and transmission, including unbundling of the gas sector and aligning the legal and regulatory framework with the Energy Community acquis, including governance and performance of national authorities, compliance with energy markets regulation, market rules and market integrity and transparency, energy security and compliance with energy decarbonization incentives.

5. Adoption of the new Forest Code will help support Moldova's ambitious afforestation plans. Moldova's NECP foresees a significant role for forest and broader land use carbon sinks to meet mid-century climate neutrality. In this context, the adoption of a new Forest Code in March 2024 will play an important role in supporting afforestation efforts, notably the National Forest Extension and Rehabilitation Program for 2023–32 (NFERP), which aims to increase the forest area by 145,000 hectares by 2032. Aligned with EU standards and global practices, the Code introduces a dual classification system for forests, clarifies management responsibilities, defines ownership rights, and enhances oversight mechanisms. It also streamlines procedures for allocating forest fund lands, regulates forest product management, and strengthens enforcement against forestry violations. Future reforms may focus on restructuring forest institutions, including Moldsilva and its affiliates.

D. Other Challenges and Opportunities

6. The main challenges identified in the original assessment letter of November 2023 remain today. Central among the challenges is the need to strengthen institutional

[2] On April 3, 2024, the Energy Community Secretariat published the results of its evaluation of the draft NECP. The evaluation concluded that the draft is aligned with the Governance Regulation requirements, although it provided a number of comments and recommendations.

capacity to support the climate transition, in the context of long-term structural constraints and continued social, political and economic risks, compounded by recent external shocks. In their 2023 report[3] on Moldova's progress in alignment with the EU acquis, the European Commission assesses the country as having "*some to moderate level*" of preparedness on energy, but still being in the "*early stage*" of preparedness on climate and environment. While progress has been made in recent months, the report notes key barriers include "*limited administrative capacity, fragmented sectoral policies and absence of a whole-of-government oversight on implementation of climate policies and commitments, and insufficient monitoring and checks of greenhouse gas emissions, including the reliability of data across the country*." While the core institutional arrangements to manage and implement climate change policies are in place, stronger, clearer segregation of duties and strengthened capacity, along with strengthened budgets, is needed to support implementation. At the same time, the process of EU integration continues to provide opportunities for Moldova to rapidly adopt the standards, policies, and institutional mechanisms to support decarbonization and climate resilience. The EU integration acts as a catalyst, unlocking wider range of financing options for resilient and net zero development. An initial assessment from the CCDR indicates that the climate-resilient green transition will require substantial investments, likely exceeding 5 percent of GDP annually over the next three decades.

E. World Bank Engagements in the Area of Climate Change

7. The World Bank engagements discussed in the November 2023 Assessment Letter are still ongoing. The CCDR, which assesses how Moldova can meet its development objectives in the context of climate change and the global energy transition, is at a draft stage. Consultations are ongoing and the report is expected to be published before COP29. Initial findings and priorities identified in the report, along with ongoing dialogue, are already contributing to support accelerated climate action. Notably, the Moldova Supporting Growth and Resilience Development Policy Operation (DPO) is supporting a number of key policy and regulatory reforms aimed at strengthening climate resilience and mitigation, including the Law and Climate Actions, the new Forest Code, the Energy Performance of Buildings Law, and amendments to the Renewable Energy Law. Through initiatives such as the Second District Heating Efficiency Improvement Project (DHEIP-2), Power System Development Project (PSDP), and the upcoming Sustainable Transition to Energy Efficiency in Moldova (STEEM) program, alongside DPO engagement, the World Bank actively promotes rules-based and competitive electricity procurement, upgrades to the domestic power transmission grid, enhancements in district-level energy efficiency, and the establishment of new electricity generation sources in Moldova. Additionally, the Programmatic Advisory Services and Analytics (ASA) for Moldova Energy Sector aims to accelerate the energy transition and increase the resilience of the electricity sector. Lastly, the planned Strengthening Moldova's Disaster Risk Management and Resilience Project seeks to enhance the Government's institutional capacities in disaster risk

[3] https://neighbourhood-enlargement.ec.europa.eu/moldova-report-2023_en

reduction and climate change adaptation, finance risk-reducing investments, and improve the response and financial preparedness of the country, thereby bolstering the overall resilience of Moldova's key infrastructure against natural hazards.

Statement by Mr. Luc Dresse, Alternate Executive Director for Republic of Moldova,

and Ms. Veronica Volociuc, Advisor to the Executive Director

June 28, 2024

On behalf of the Moldovan authorities, we thank the IMF team for the constructive discussions on the fifth reviews under the ECF/EFF arrangements and the first review under the RSF arrangement. We also thank the team for a well-focused report that confirms the authorities' strong ownership and implementation of the program. While coping with the consequences of heightened uncertainty stemming from a complicated regional context, dominated by Russia's war in neighboring Ukraine, and the scars of the pandemic and energy crisis, the authorities stayed the course to maintain macroeconomic stability and accelerate the reforms. The economy gradually entered a recovery phase in the second half of 2023, reinforced by positive sentiment about Moldova's EU candidate status. The authorities' policies and reforms remain firmly focused on strengthening institutions, supporting economic recovery and long-term growth, advancing the EU agenda, and enhancing contingency planning as war-related challenges and risks persist.

Moldova's EU membership remains the authorities' overriding priority. Following the European Council's decision at the end of 2023 to open accession negotiations with Moldova, a screening process of all acquis chapters has progressed in 2024. Launching the formal membership negotiations, on June 25, represents another important milestone in Moldova's EU integration path, which will reinforce the reform momentum.

Recent Economic Developments, Outlook, and Risks

The macroeconomic situation improved in 2023, although at a muted pace. After a recession in 2022, caused by spillovers from Russia's war in Ukraine, Moldova's economy moderately recovered in 2023, with GDP growing 0.7 percent compared with the 2 percent anticipated. The recovery was supported by strong agricultural production and a rebound in consumption and investment (although at a weaker-than-expected pace), stabilized inflation, and improved risk perception. At 5.2 percent of GDP, the 2023 fiscal deficit was in line with data at the time of the fourth review, displaying improvements in capital expenditure execution. Public debt remained contained (36.6 percent of GDP). The current account deficit narrowed to 11.9 percent of GDP from 17.2 percent of GDP in 2022, indicating weaker imports (primarily of energy), and strong donors' disbursements. Reserves continued to build up ($ 5.4 billion at end-May 2024), providing over 6 months of import coverage and an adequate cushion against external shocks. The financial sector continues to show resilience, with deposits and liquidity buffers exceeding pre-war levels and strong credit quality.

The accommodative monetary policy stance has backed domestic demand. Supported by a decline in food and regulated prices and successful policy interventions by the National Bank of Moldova (NBM), headline inflation returned to the NBM's target band in October 2023, falling to 3.3 percent in May 2024. According to the forecasts, inflation will stay within this target band over the medium-term. Since December 2022, the NBM has been in an easing mode, with a gradual policy interest rate reduction from 21.5 percent to 3.6 percent in May 2024, complemented by a lowering of bank reserve requirements. These actions sustained the recovery of banks' lending, in particular to households. Credit growth to businesses is gaining strength gradually amid uncertainties and sluggish pass-through of lower policy rates to lending rates.

Economic growth in key trade partners and war-related uncertainty will influence the outlook and risks. The GDP growth projection has been revised down to 2.6 percent in 2024 (compared to a projected 3.9 percent six months ago), owning to subdued investments due to war-related high uncertainty and downward growth revisions in key trade partners. The weaker growth is reflected in lower revenue projections in 2024, compared to those budgeted, against the backdrop of substantial investment and development needs to support recovery. Robust and sustainable growth is expected in the medium-to-long-term, once the effects of the war fade, trade partners recover, and reforms accelerate. However, these prospects continue to be clouded by risks from a protracted war in Ukraine, new energy shocks, political tensions, and extreme weather events, which can dampen investment and impair fiscal and external balances. Conversely, stronger growth in trade partners, enhanced progress towards EU accession, and advancing the structural reforms represent important upside risks.

Performance Under the ECF/EFF and RSF arrangements

Notwithstanding some delays in structural reforms, program performance has remained strong. The authorities advanced with the SOE reforms by completing the triage of 238 SOEs at the central government level, implemented the automated tax filling compliance program for VAT and excises, and extended the tax expenditure analysis. Due to its complexity, the amendments to the NBM's law to strengthen its independence, governance, and operations were approved by the Government end-May 2024 (instead of end-December 2023). Noting the importance of these amendments, the Parliament approved them already in the first reading on June 13. For the same reasons of complexity, which required extensive internal discussions, but also coordination with European institutions and the Venice Commission, the work on finalizing the law on the Anti-Corruption Court (ACC) has been extended. The approval of the law is expected by end-September with the SB reset accordingly. The five new proposed SBs will fortify the reform deliverables by further strengthening the NBM, enhancing the Anti-Corruption Prosecutor's Office's (APO) capacity, and improving fiscal governance and discipline.

All reform measures planned for the first RSF review were met. In addition to the approved Law on Climate Action, which was aligned with international climate commitments and relevant EU directives, the authorities established the National Commission on Climate Change (NCCC), under the Office of the Prime Minister. The NCCC will ensure cross-sectoral coordination of the climate agenda. They also developed the Sustainable Finance Strategy with the view to build a strong strategic and systemic vision of the key elements leading to the development of sustainable finance. Its roadmap aims to ensure coherence among stakeholders, as well as greening investments and public procurement, greening the energy sector, and energy efficiency efforts. Moreover, the established interagency committee on climate finance will enhance data sharing on climate finance.

Economic Policies and Reforms

While the authorities' immediate objective is to safeguard macroeconomic stability and support economic recovery, their longer-term endeavors will center on fostering green, inclusive, and sustainable growth in line with the EU integration agenda. The authorities will continue to align the economy and institutions with key EU criteria, which represents an opportunity to unlock growth potential and convergence with EU standards. The reform advancement will ensure broad sectoral coverage.

For the midyear supplementary budget, the authorities see scope to increase the deficit to 5 percent of GDP (from 4.8 percent budgeted for 2024). This is justified by the expected shortfall in tax revenues due to weaker-than-projected growth (in line with the revised forecast), in the context of higher pro-growth spending needs to support the recovery given the shaky outlook.

Fiscal policies will be supported by better-targeted social assistance and energy security. In addition to the measures implemented towards the consolidation of energy poverty reduction schemes, the Energy Vulnerability Reduction Fund (EVRF) will become better targeted, starting next heating season. This will be realized by transitioning from in-bill to cash transfers delinked from current energy consumption. As new energy shocks could weaken the outlook and put significant pressure on the fiscal position, the authorities will continue to strengthen energy resilience. While they succeeded in diversifying the gas supply sources, the authorities continue to work on diversification of the electricity supply by building additional transmission lines with the Romanian market. Moreover, the registration of the energy company JSC “Energocom” on the OPCOM (Romanian Electricity and Gas Market Operator) has allowed for the extension of electricity purchases from spot market and other sources. The work on enhancing energy efficiency and expanding renewable energy generation is also advancing.

The SOE sector reforms will continue, further mitigating fiscal risks. Following the completion of the triage, the work on enhancing the sector will comprise of several steps including developing a framework for monitoring the financial performance of SOEs and rationalization loss-making SOEs or those in non-strategic sectors.

Acknowledging the importance of building buffers and preserving debt sustainability, the medium-term fiscal policies will envisage fiscal consolidation while addressing the country’s development needs. With recovery gaining steam, the consolidation will be conducted gradually towards a deficit target of 3.1 percent of GDP by 2027, in line with the Medium-Term Budget Framework (MTBF). These efforts will include measures on both revenue and expenditure sides. Fiscal gains will be generated by the tax administration reforms following the harmonization of the Tax and Custom Codes with the EU *acquis*, streamlined tax expenditures, reduced current spending stemming from enhanced social assistance programs, and improved budget executions supported by the implementation of PFM, MTBF, and PIM reforms.

Monetary policy will remain geared towards maintaining inflation within the target band. To this end, in line with the NBM's inflation targeting regime, policy rate decisions will continue to be data-driven, guided by inflation forecasts and risk-balancing. The authorities will maintain exchange rate flexibility and limit foreign exchange interventions to avoid excess volatility.

The credibility of the NBM, regarding its responsibility for monetary policy and financial stability, will be reinforced by additional measures. Specific provisions will further enshrine the principles of the NBM’s independence by enhancing its personal and institutional autonomy, and by improving governance and transparency of the central bank. Additional provisions will clarify the NBM’s accountability to the Parliament and strengthen public communication.

The financial sector reforms will aim at bolstering the resilience of the system and enhancing overall macroeconomic stability while also supporting the private sector-led growth. The authorities will continue to strengthen the supervision, including risk-based AML supervision, and enhance financial crisis management and the macroprudential framework. More specifically, the NBM will advance the work on improving the Bank Recovery and Resolution Law (BRRL) and finalizing the comprehensive review of the bank liquidation framework, as well as improving the ELA. While the insurance sector is dominated by the non-life sector, the authorities plan to develop and adopt the required secondary legislation (under the requirements of the primary legal framework) for introducing Pillar II and Pillar III of Solvency II by end September. Cognizant of the key role of capital markets in attracting investments and reinvigorating private sector growth, the authorities intend to finalize drafting a national strategy for capital market development by end 2024.

Further boosting financial inclusion will create opportunities for more broad-based growth. By end 2024, the authorities aim to finalize an action plan for the development of the National Financial Inclusion Strategy. This will be supported by an inter-agency committee, to be set up by end-June. Following the successful launch of the instant payment system in March, the plan is to broaden its coverage through additional transactions including person-to-business and person-to-government. Furthermore, the authorities are working on joining the Single Euro Payments Area (SEPA), with the application to join SEPA submitted in February.

The anti-corruption agenda will be further reinforced to address high-profile corruption cases. The measures under the program will aim at fortifying APO's capacity and staffing and expanding its operational autonomy. More specifically, in addition to providing separate functional premises, the authorities will grant APO a heightened role in hiring, transferring, or promoting its investigative officers and prosecutors. The operationalization of ACC will strengthen the rule of law by ensuring timely and specialized adjudication of corruption cases.

As the reform implementation under the RSF kicked off successfully, the reform measures for the 2nd RSF review provide additional impetus in building climate and energy sector resilience. The specific reform measures will comprise (i) setting a full Disaster-risk Management (DRM) cycle in place with the ultimate scope of reducing risks and costs of disasters; (ii) determining the cost recovery rate for the provision of electricity and natural gas, (iii) preserving the energy price signals through replacing the provision of support under the EVRF with targeted cash transfers, and (iv) inclusion of climate change impact and vulnerability assessments in project appraisal and selection methodologies. The work on these reform measures is ongoing.

Conclusion

In their pursuit towards the EU membership, the authorities remain committed to advance their ambitious reform agenda. The ECF/EFF program in tandem with the RSF arrangement will continue to play a key role in reaching this objective. To this end, the authorities reaffirm their commitment to strong programs implementation going forward. They will stay the course on securing macroeconomic stability and strengthening the institutional framework to increase and enhance the economy's capacity towards achieving long-term robust, green, and inclusive growth.