IMF Country Reports 22/140

Republic of Moldova: Ad Hoc Review Under the Extended Credit Facility; Request for Augmentation and Rephasing of Access, Modification of Performance Criteria, and Completion of the Inflation Consultation Under the Extended Credit Facility and Extended Fund Facility Arrangements-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Moldova

INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/140

REPUBLIC OF MOLDOVA

May 2022

AD HOC REVIEW UNDER THE EXTENDED CREDIT FACILITY; REQUEST FOR AUGMENTATION AND REPHASING OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, AND COMPLETION OF THE INFLATION CONSULTATION UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOLDOVA

In the context of the Ad Hoc Review Under the Extended Credit Facility; Request for Augmentation and Rephasing of Access, Modification of Performance Criteria, and Completion of the Inflation Consultation Under the Extended Credit Facility and Extended Fund Facility Arrangements, 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 May 11, 2022, following discussions that ended on April 12, 2022, with the officials of the Republic of Moldova on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility and Extended Fund Facility Arrangements. Based on information available at the time of these discussions, the staff report was completed on May 2, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- 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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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes Ad-Hoc Review Under the Extended Credit Facility and Approves Augmentation and Rephasing of Access under the Extended Credit Facility and Extended Fund Facility Arrangements for the Republic of Moldova

FOR IMMEDIATE RELEASE

- The war in Ukraine has resulted in significant spillovers to Moldova.
- The resources under the augmented ECF/EFF arrangements will help Moldova address challenges emanating from the war in Ukraine, catalyze additional external financing, protect social cohesion by providing needed budget support to most vulnerable, and give further impetus to crucial reforms. The immediate disbursement of US$144.81 million will help Moldova meet pressing war-induced balance of payments financing needs.
- The program is on track. The goals of addressing balance of payment imbalances, and strengthening governance and institutional frameworks, through an ambitious set of structural reforms are maintained.

Washington, DC – **May 11, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the ad-hoc review[1] under the Extended Credit Facility and Extended Fund Facility Arrangements[2] for the Republic of Moldova. This makes about USD 144.81 million (SDR 108.15 million) available to Moldova immediately. The Board also approved an augmentation and rephasing of access under the program. Total access under the blended 40-month ECF/EFF arrangements approved in December 2021 (Press Release) was increased by about US$260.11 million (SDR 194.26 million) to about US$795.72 million (SDR 594.26 million).

Spillovers from the war in Ukraine are affecting the Moldovan economy through a variety of channels, including a spike in energy prices, trade disruptions, adverse confidence effects and the indirect impact of sanctions. Already over 400,000 refugees fleeing the conflict have entered Moldova—by far the highest of any country in per capita terms. Most have since transited to other countries, but about a quarter of them currently remain there. The immediate disbursement under the blended ECF/EFF program will allow Moldova to meet pressing balance of payments financing needs arising from these shocks.

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

[1] An ad hoc review between scheduled reviews can be requested by a program country when the increase in the underlying balance of payments problems cannot await the next scheduled review. Ad hoc reviews require an assessment by the IMF Executive Board that the program is on track to achieve its objectives.

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

"Directors commended the Moldovan authorities for their strong commitment to the Fund-supported program, despite the challenging environment. They noted that the spillovers from the war in Ukraine and international sanctions on Russia and Belarus, including trade disruptions, higher and more volatile energy prices, and the continued influx of a large number of refugees, have had a significant impact on Moldova and led to increased external financing needs.

"Directors commended the authorities for their swift response to the crisis and welcomed the adoption of the supplementary budget to protect vulnerable households, accommodate refugees' humanitarian needs and maintain social cohesion. Directors underscored, however, that strong implementation of the budget envelope as well as careful monitoring of revenue performance and additional spending pressures will be important going forward. They emphasized that fiscal plans should remain anchored by a strong commitment to debt sustainability. Given the unprecedented uncertainty, Directors welcomed the authorities' readiness to activate contingency plans, should risks materialize.

"Directors welcomed the central bank's decisive policy response to increased inflation. They noted that the financial sector has remained resilient despite temporary liquidity pressures. Going forward, Directors broadly concurred that careful calibration of monetary tightening to balance financial stability and growth objectives will be important. Further foreign currency interventions should be limited to preventing a disorderly adjustment of the exchange rate and curbing excess exchange rate volatility.

"Directors commended the authorities for keeping the program on track and making good progress on key reforms, including the completion of structural commitments on fiscal governance, financial sector oversight, oversight of state-owned enterprises, and strengthening anti-corruption legislation. They encouraged continued progress on the integrated taxpayers' register, the comprehensive tax expenditure analysis, and the reinforcement of the National Bank of Moldova's institutional autonomy.

"Directors emphasized that the program's focus on addressing significant governance weaknesses and institutional vulnerabilities remains critical and welcomed the emphasis on strengthening the rule of law and financial supervision. They noted that continued reforms under the program—if appropriately sequenced and resolutely implemented—will boost productivity, unlock private investment and support inclusive, sustainable growth."

REPUBLIC OF MOLDOVA

May 2, 2022

AD HOC REVIEW UNDER THE EXTENDED CREDIT FACILITY; REQUEST FOR AUGMENTATION AND REPHASING OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, AND COMPLETION OF THE INFLATION CONSULTATION UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS

EXECUTIVE SUMMARY

Context. The economy rebounded strongly from the pandemic recession last year while prudent macroeconomic management maintained robust buffers. But the war in Ukraine and the international sanctions imposed on Russia and Belarus have resulted in significant spillovers to Moldova, with implications yet to fully play out. At the outbreak of hostilities, FX market pressures triggered significant foreign currency interventions and bank deposit withdrawals, while dollarization has intensified. Moldova has received the highest per capita inflow of Ukrainian refugees (17 percent of the total population), of which about 100,000 refugees (4 percent of the total population) remain in Moldova. Driven by rising food and energy prices, inflation accelerated further above the target band.

Outlook and risks. In 2022, the economy is projected to stagnate while the current account deficit will widen due to lower exports and the continued sharp rise in energy import prices. Real economy scarring is estimated to be significant over the medium term, reflecting protracted war-induced disruptions, including fractured real and financial linkages in the region. Risks around the baseline are exceptionally large and tilted to the downside. A sharper-than-anticipated increase in energy prices or disruptions in energy supplies are key risks. Further risks include a worsening of confidence effects related to the war in Ukraine that leads to an acceleration of MDL depreciation and system-wide liquidity pressures. The government could also face a further tightening of financing constraints resulting in lower rollover rates. Moldova's fragile social fabric could be tested by popular unrest over rising utility tariffs, worsening living standards, and deepening political divisions.

Policy discussions and reform priorities. The immediate challenge is to navigate the multiple shocks hitting the Moldovan economy. In consultation with staff, the authorities approved a supplementary budget to address urgent spending needs related to a continued influx of refugees, rising energy costs, and high inflation. Going

forward, progress with the ambitious structural reform agenda is crucial and will enhance revenue mobilization, spending efficiency and transparency, and further strengthen the resilience of the financial sector. Addressing significant governance weaknesses and institutional vulnerabilities remains critical. Implementation of anti-corruption measures is progressing apace, and the authorities' reform commitments have been further strengthened.

The authorities' requests. The authorities are requesting an ad-hoc review under the ECF/EFF arrangements, an augmentation of SDR 194.26 million (112.6 percent of quota, of which SDR 64.79 million under the ECF and SDR 129.47 million under the EFF) and rephasing of access, increasing total access under the blended 40-month ECF/EFF arrangements approved in December 2021 to SDR 594.26 million (344.5 percent of quota). The program will help catalyze external financing, protect social cohesion, and give further impetus to crucial reforms. The immediate disbursement is equivalent to SDR 108.15 million (62.70 percent of quota, of which SDR 64.75 million under the ECF and 43.40 million under the EFF). The ad-hoc review is justified for the ECF as pressing war-induced balance of payments financing needs—arising from the spike in energy prices, trade disruptions, adverse confidence effects, the inflow of refugees and the indirect impact of sanctions—cannot await the next scheduled review in June.

Program. The program is on track and the goals of addressing protracted balance of payment problems and strengthening governance and institutional frameworks through an ambitious set of structural reforms are maintained. Notwithstanding the difficult context, the authorities' commitment to the governance-focused reform agenda under the program remains strong, and reform commitments have been further strengthened. Risks to the program are high but are mitigated by the authorities' strong program ownership. A comprehensive review of policies under the program will be undertaken at the time of the next review.

Approved By
Philip Gerson (EUR) and Maria Gonzalez (SPR)

Discussions were held remotely and in person during April 4–12, 2022. The mission met with Prime Minister Gavrilița, Deputy Prime Minister Spinu, Minister of Finance Budianschi, Minister of Economy Gaibu, Minister of Justice Litvinenco, Minister of Labor and Social Protection Spătari, Governor of the National Bank of Moldova Armaşu, Chair of the National Commission for Financial Markets Cozlovschi, General Director of the Public Property Agency Cozonac and other senior officials and representatives of financial institutions, non-governmental organizations, diplomatic community, and international organizations. The mission team comprised R. Atoyan (Head), A. Fouejieu, M. Marinkov, M. Patnam, F. Toscani (all EUR), S. Jahan (FAD), K. Kao (LEG), B. Nandwa (SPR), J. Podpiera (MCM), and R. Chawani (resident representative). Luc Dresse (OED) joined the discussions. L. Herrera Prada and C. Piatakovas (both EUR) and staff from the local office assisted the mission.

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CONTEXT

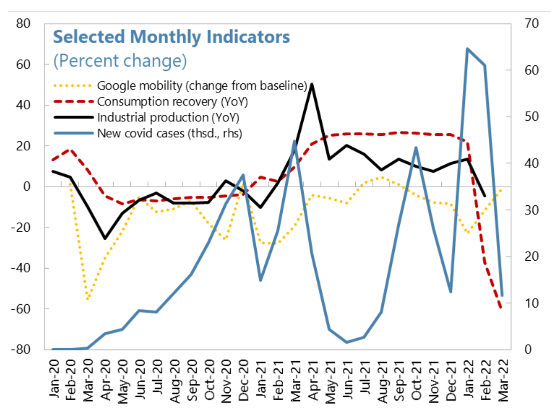
1. **The war in Ukraine and international sanctions on Russia and Belarus represent a major shock to the Moldovan economy.** As a neighbor of Ukraine, and with close real economy and financial links to Russia, Ukraine and Belarus, Moldova is hard hit by the war. The full impact of the conflict on Moldova is yet to materialize but already over 400 thousand refugees fleeing the conflict have transited through Moldova, with about a quarter of them currently being accommodated by the Moldovan authorities. FX market pressures have triggered significant foreign currency interventions and temporary bank deposit withdrawals, while dollarization has somewhat increased.

2. **Spillovers from the war will affect the economy through a variety of channels in the near and medium-term** (Box 1). The spike in energy prices, trade disruptions, adverse confidence effects, the inflow of refugees and the indirect impact of sanctions all constitute significant shocks for Moldova, generating immediate fiscal pressures and exacerbating external financing needs (¶16. and ¶29.

3. **Despite the difficult situation, the Moldovan authorities are showing strong ownership of the ECF/EFF program approved in December 2021.** The blended arrangements under the IMF's Extended Credit Facility (ECF) and Extended Fund Facility (EFF) embeds structural reforms that aim to improve the rule of law and the anti-corruption framework and strengthen fiscal and financial governance, ultimately accelerating income convergence between Moldova and European peers. The reform agenda is progressing apace and engagement between staff and the authorities has been close and continuous.

RECENT ECONOMIC DEVELOPMENTS

4. **The Moldovan economy rebounded strongly last year from the pandemic-induced recession.** After contracting by over 8 percent in 2020 on account of the pandemic, real GDP expanded by a higher-than-expected 13.9 percent in 2021. The recovery was supported by a record agricultural harvest, and strong private consumption growth. The health crisis and associated economic and social disruptions eased further in the first quarter of 2022 with the number of Covid-19 infections dropping sharply in recent months. Available high frequency indicators point to a sustained recovery of activity in the first two months of the year.

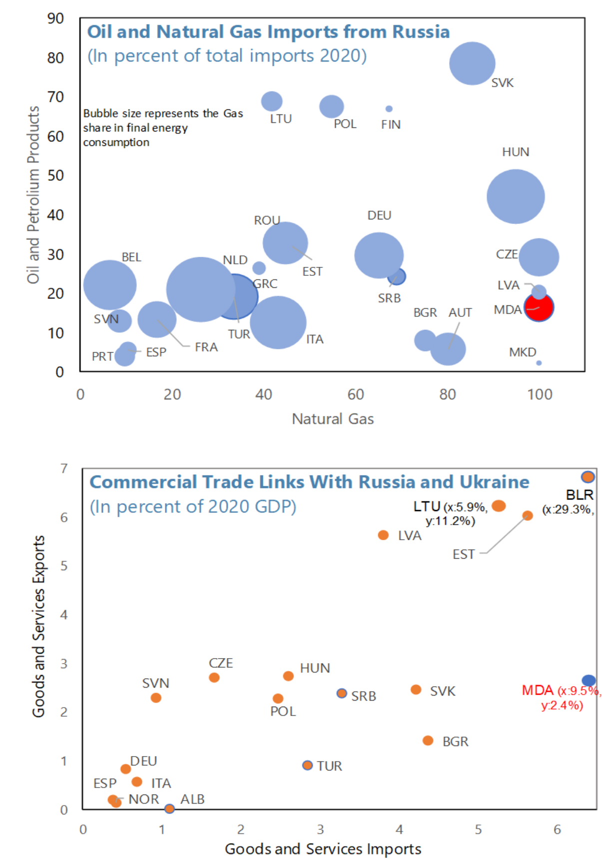


Source: NBS, Ministry of Finance, Google, John Hopkins University, IMF staff calculations.

Box 1. Channels of Transmission to Moldova of the War in Ukraine

The economic effects of the war in Ukraine on Moldova will likely materialize through several channels, most notably trade and energy prices. Moreover, confidence effects could aggravate financial conditions and real economic activity, while the continued influx of refugees would increase budgetary needs.

Trade disruptions. Disruptions of trade with Russia, Ukraine, and Belarus (representing about 24 percent and 15 percent of total imports and exports of goods and services, respectively) and international sanctions against Russia and Belarus will pressure the current account and adversely affect net exports. With both land and sea transit links constrained, Moldova is already facing difficulties in exporting the existing stock of agricultural products such as apples and grains, for which Russia was the main importer. Trade disruptions with conflict-affected countries also risk weighing on government finances through trade-related revenues (which represent more than a third of total government revenue (¶16.   ), while putting pressure on supply of food and other imported products and thus fueling inflation.



Source: UN Comtrade and IMF Staff Calculations

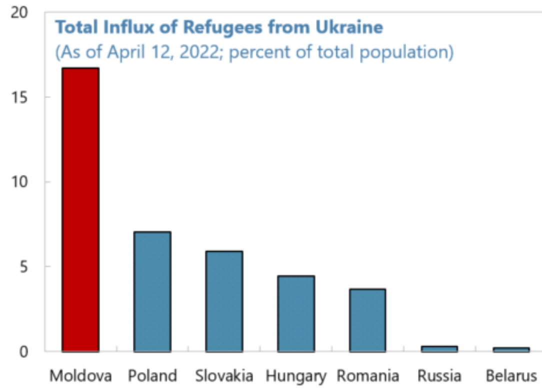
Energy price increase. Following the spike in international energy prices, the cost of energy imports is expected to increase to US$1.8 billion (13.1 percent of GDP—the highest level since 2008), accounting for 25 percent of total goods imports in 2022, contributing to worsening the current account (¶8.   ). The pressure on energy prices—depending on passthrough to domestic tariffs—will also further drive-up inflation and erode purchasing power or put additional pressure on public finances (¶16.   , Box 2). In addition, with all of its natural gas imports originating from Russia and the main electricity supplier, based in the breakaway region of Transnistria and operating with Russian natural gas, Moldova's energy security is also at risk due to the war and broader geopolitical tensions.[1] The supply of petroleum products is not reliant on Russia and thus security of supply is less at risk for those, but they account for the largest share of energy imports in value terms, implying a high sensitivity of Moldova's current account to international oil prices.

Confidence. Confidence effects associated with the war in Ukraine are putting pressure on FX reserves (¶20), bank liquidity (¶23.   ), and the government's borrowing capacity (¶14.   ), and are expected to weigh on private consumption and investment.

[1] Moldovagaz has substantial outstanding debt with Gazprom, with the exact amount being a contentious issue. The next step that had been agreed was an external audit of the debt, which has been delayed in light of difficulties posed by the war. This is one more factor contributing to the high energy supply risks in Moldova.

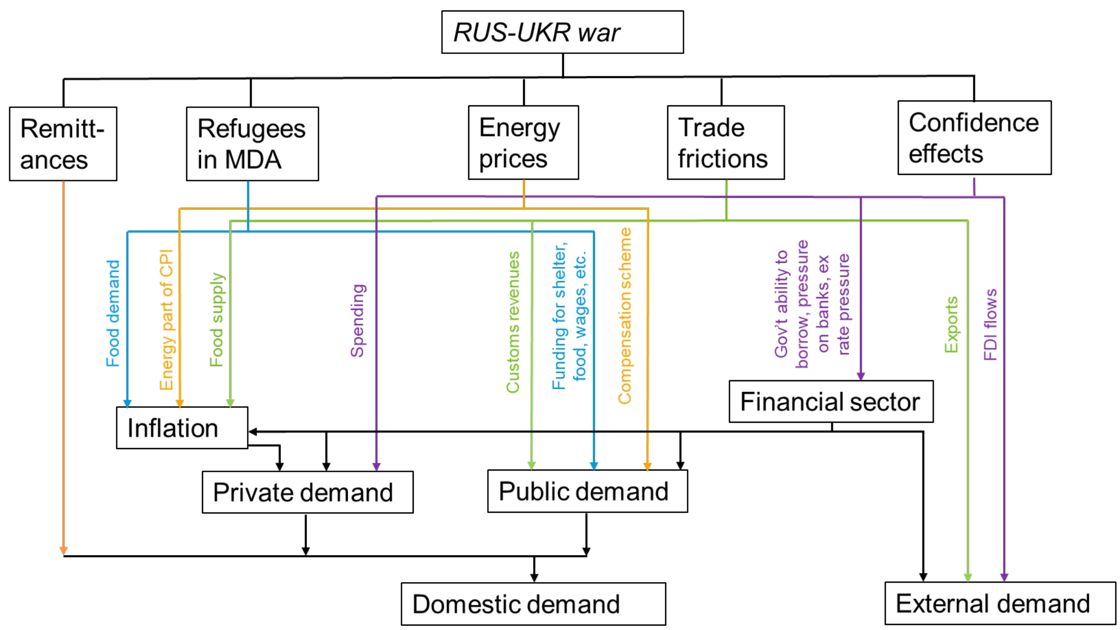
Box 1. Channels of Transmission to Moldova of the War in Ukraine (concluded)

Refugees. In per capita terms, the influx of refugees from Ukraine to Moldova is by far the highest in Europe. About 100,000 refugees (4 percent of the total population) remain in Moldova. Addressing refugees' immediate needs will require the continued provision of basic necessities such as food, shelter, and related logistics as well as education and broader services. The costs for such humanitarian support are currently estimated at around 0.4 percent of GDP (¶16.). The increased domestic demand created by refugees might support activity while also increasing imports.

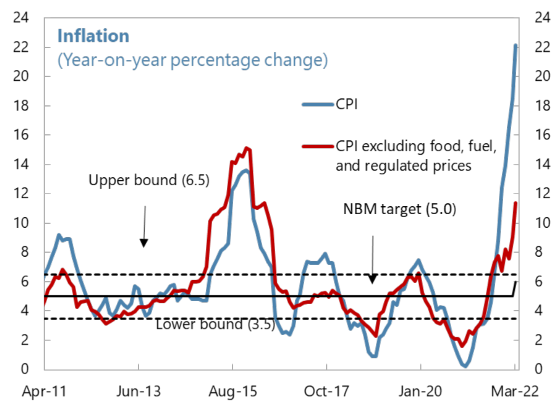


Sources: UNHCR, Eurostat, and staff calculations

Remittances. At over 15 percent of GDP, remittances are a key source of financing for Moldova. Russia accounts for close to 20 percent of remittances while the EU accounts for a half. Over the past years—despite volatility in the global economy, most notably due to the Covid-19 crisis—remittances as a share of GDP have been broadly stable. The impact of the war on remittances is thus not clear cut at this point. On the one hand, a severe recession in Russia could have a noticeable impact on the potential for remittances from Russia. On the other hand, migrants might send back a higher share of their income via remittances to support family at home.



5. Inflation stands significantly above the National Bank of Moldova's (NBM) target range and the upper band under the program inflation consultation clause (Attachment I). Inflation accelerated throughout 2021, driven by soaring food and energy prices as well as an increase in core inflation. At end-year, inflation stood at 13.9 percent (yoy), and has since risen to 22.2 percent in March 2022.



Sources: Moldovan authorities and IMF staff calculations.

6. The current account deficit has widened. The current account deficit worsened to 11.7 percent of GDP last year from about 8 percent of GDP in 2020. Exports performed well and reached their highest level since 2017 in percent of GDP on account of the record harvest. The economic recovery and a sharp increase in global commodity prices led to a jump in nominal imports, however.

7. Prudent economic management maintained robust buffers as of end-2021. Public debt reached 32.5 percent of GDP last year, slightly lower than the 33.7 percent of GDP in 2020, reflecting, inter alia, significant spending under-execution. Gross FX reserves stood at US$3.9 billion (about 174 percent of the Fund's composite reserve adequacy metric), providing a substantial cushion against exchange rate pressures and market uncertainty. Banks entered the crisis with strong capital and liquidity positions, both standing above regulatory requirements, and broadly balanced net open positions in foreign currencies.

OUTLOOK AND RISKS

8. Spillovers from the war are expected to derail the Moldovan economy from its pre-conflict trajectory. The economy is projected to stagnate with inflation accelerating further amid widening of the current account and fiscal deficits.

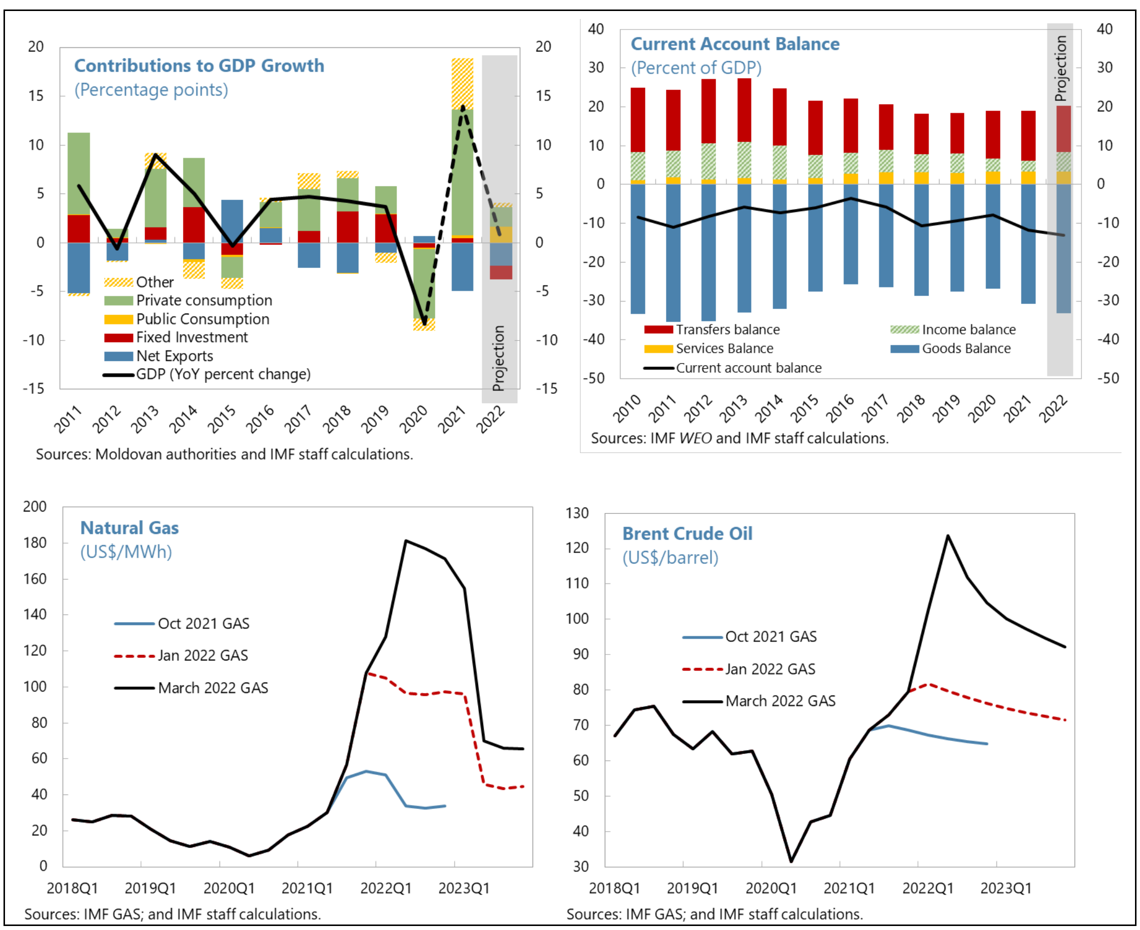
- **Real GDP:** A contraction in net exports and investment, combined with a slowdown in private consumption growth, is projected to lead to GDP growth of 0.3 percent this year, followed by continued subdued growth of 2 percent in 2023, supported by a recovery of investment and net exports (compared to the pre-conflict forecast of 4.5 percent and 5.5 percent for 2021 and 2022, respectively, in the program request staff report). Real economy scarring is estimated to be significant over the medium term, reflecting protracted war-induced disruptions, including fractured real and financial linkages in the region, with real GDP standing at about 7 percent below pre-conflict forecast in 2026.

- **Inflation:** Driven by further increases in food and energy prices, depreciation pressures, as well as tariff adjustments (see Box 2), average annual inflation is expected to reach 23.5 percent this year. Inflation is likely to peak in the summer before easing towards the end of the year and in 2023, under the assumption that commodity prices should begin to partially normalize starting

from the second half of 2022. Pressures from food prices are also expected to ease as trade disruptions abate and alternative supply sources are identified. As a result, staff projects inflation to remain well above the NBM's target band until end-2023.

- **Fiscal:** Despite some increase in revenues, multiple spending pressures to mitigate spillovers to the economy from the war in Ukraine and to provide humanitarian support to refugees are projected to lead to a larger budget deficit of 7.2 percent of GDP, financed with support from external partners. Public debt is expected to increase to 38.4 percent of GDP amid increased concessional borrowing from external partners. Debt is assessed to be sustainable in the medium term, staying below the anchor of 45 percent of GDP, but the overall risk of debt distress has been reclassified to moderate due to high sensitivity of the debt trajectory to adverse growth shocks. Public debt is envisaged to decline to about 41 percent of GDP in 2027, after peaking at 43 percent of GDP in 2024 (DSA).

- **External:** Reflecting the terms of trade shocks, the current account deficit is projected to widen to 13 percent of GDP this year relative to the 10 percent deficit expected pre-conflict. Both weaker exports and higher imports (the latter driven by energy price increases) will contribute to the deterioration. In the medium-term, the current account deficit should narrow closer to its pre-pandemic average, to 8.5 percent of GDP.



Sources: Moldovan authorities and IMF staff calculations.

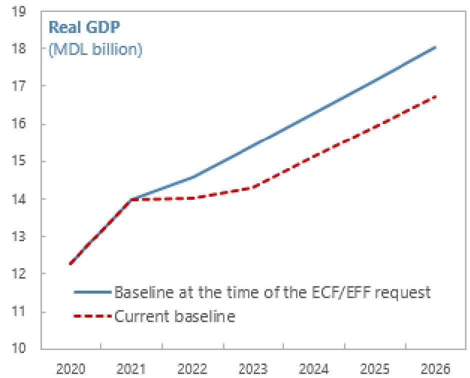
Sources: IMF *WEO* and IMF staff calculations.

Sources: IMF GAS; and IMF staff calculations.

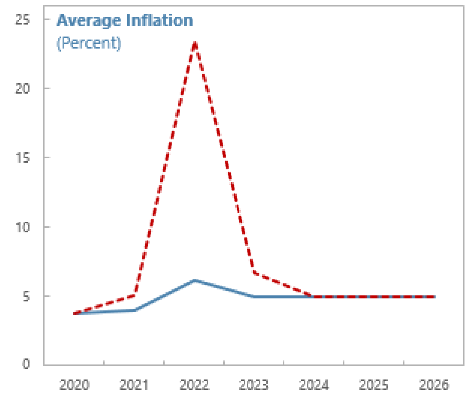
Sources: IMF GAS; and IMF staff calculations.

Figure 1. Moldova: Comparison of Baseline Projections 1/

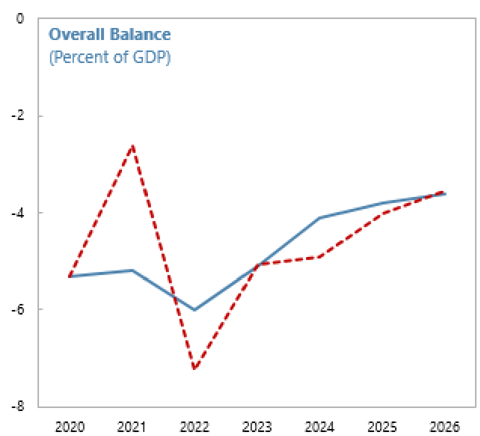
Real economy scarring is significant in the medium term, reflecting protracted war-induced disruptions.



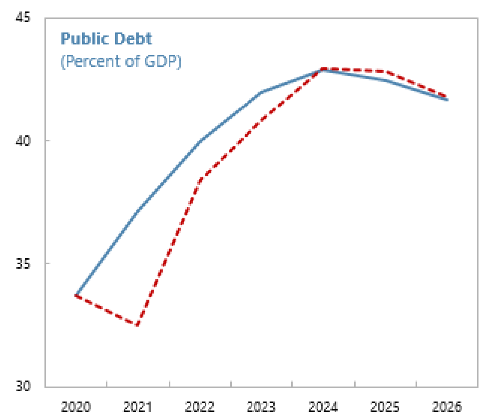
Inflation outlook deteriorated substantially in 2022, due to the impact of soaring food and energy prices.



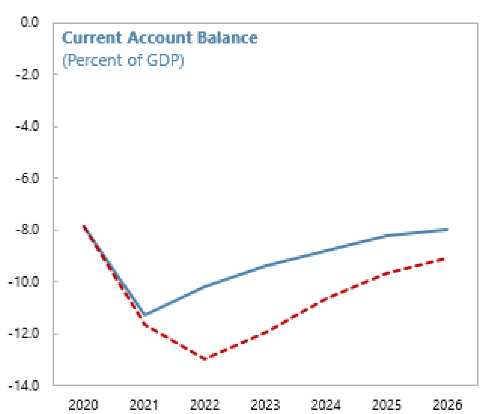
The fiscal deficit widened, due to higher allocations for the multiple crises that have unfolded since program approval...



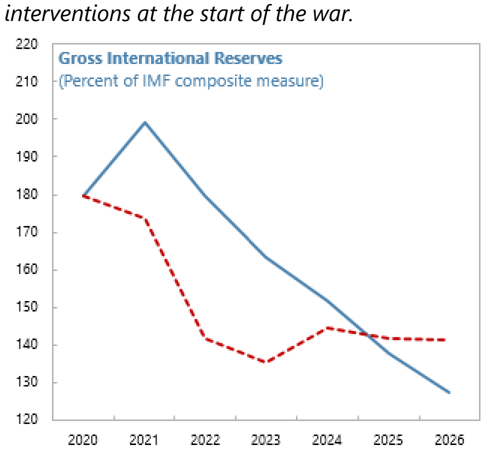
... pushing up the trajectory of public debt.



A contraction of net exports as a result of terms-of-trade shocks widened the current account deficit...



... while reserve buffers weakened, due to significant FX interventions at the start of the war.



Source: Moldovan authorities and IMF staff estimates.

1/ Baseline at the time of ECF/EFF request is presented in the IMF Country Report No. 22/1.

9. Risks around the baseline are exceptionally large and tilted to the downside (Annex I). A sharper-than-anticipated increase in energy prices or disruptions in energy supply are key risks. Based on recent peak futures prices, import costs could be several hundred million dollars higher than in the baseline this year, worsening the current account and hitting public and private balance sheets. Beyond the impact of prices, Moldova's energy security is at risk of an interruption or reduction in natural gas or electricity deliveries, while a broader supply shock could trigger significant challenges to identify alternative sources. Given that Ukraine is an important food exporter to Moldova, food security risks are also amplified. Policy tradeoffs may become even more challenging if increasing uncertainties and confidence effects related to the war in Ukraine lead to an acceleration of MDL depreciation and system-wide deposit runs. The government could also face a further tightening of financing constraints due to lower rollover rates. Escalation of the war in Ukraine closer to the Moldovan border could exacerbate the refugee wave and trigger serious confidence shocks. Moldova's fragile social fabric could be tested by popular unrest over rising utility tariffs, worsening living standards, or deepening political divisions. The materialization of these risks would generate a further adverse layer of shocks to Moldova via indirect spillovers, adding to the impact of further direct shocks from the war.

10. The authorities broadly shared the staff's view of the macroeconomic outlook. They stressed Moldova's high exposure to spillovers from the war in Ukraine given geographic location, trade and financial linkages, and energy import dependence. They see risks to the Moldovan economy as substantial and as largely tied to the future evolution of the conflict and global energy prices. The authorities have also set up a first deep layer of contingency plans for extreme events (¶16, ¶21, ¶25 and Box 2), which continue to be further enhanced with staff support.

UPDATE ON PROGRAM IMPLEMENTATION

11. The program is on track, with good progress made on near-term structural commitments, confirming authorities' strong program ownership. For the ad hoc augmentation, only the continuous performance criterion, structural conditionality, prior action, and the inflation consultation clause are being assessed.

- Performance against the end-March indicative targets was mixed, largely due to the shocks related to the war in Ukraine. The cash deficit ceiling and floor on development spending were met. The floor on the NIR was missed due to higher-than expected energy import costs and the FX interventions to mitigate war-induced exchange rate volatility. The floor on social spending was also missed largely on account of a lower-than-expected take-up of pandemic-related support programs.

- The authorities have confirmed that, to date, no external payment arrears have accumulated, and staff assesses that the continuous performance criterion (PC) on external payment arrears is met.

- Inflation exceeded the outer consultation band in March 2022, triggering a consultation with the IMF Executive Board (Annex II, Attachment II). The acceleration in inflation was expected given the developments in early-2022, including rising food prices, substantial adjustments in energy tariffs, and pent-up demand. The war in Ukraine is also putting pressure on the lei which depreciated since the intensification of the conflict, with significant pass-through expected to exert pressure on domestic prices.

- The **prior action** on the adoption of a supplementary budget consistent with program objectives is on track of being met (¶16).

- Three end-March structural benchmarks (SBs) have been met: (i) the solvency assessment for insurance companies to support the migration to the Solvency II framework has been completed; (ii) the authorities issued guidelines requesting all central government SOEs to submit standardized quarterly financial statements for 2019–2021 by end-April; and (iii) the authorities also published a report on the execution of investment projects undertaken by extrabudgetary funds in the previous fiscal year. The SB on strengthening the law on the prosecution service was not met, and completed with slight delay in April, as additional amendments were needed to fully satisfy program commitments.

- Several end-June SBs and other program commitments are also advancing. The authorities are currently testing the integrated taxpayers' register. With IMF staff support, a comprehensive tax expenditure analysis is progressing apace. The NBM is also discussing with IMF staff, the draft legislative amendments to strengthen provisions for its institutional autonomy. The NBM and the National Commission for Financial Markets (NCFM) are jointly developing draft regulations to boost the macroprudential toolkit and foster responsible lending, by planning to introduce prudential limits on debt-service-to-income and loan-to-value ratios.

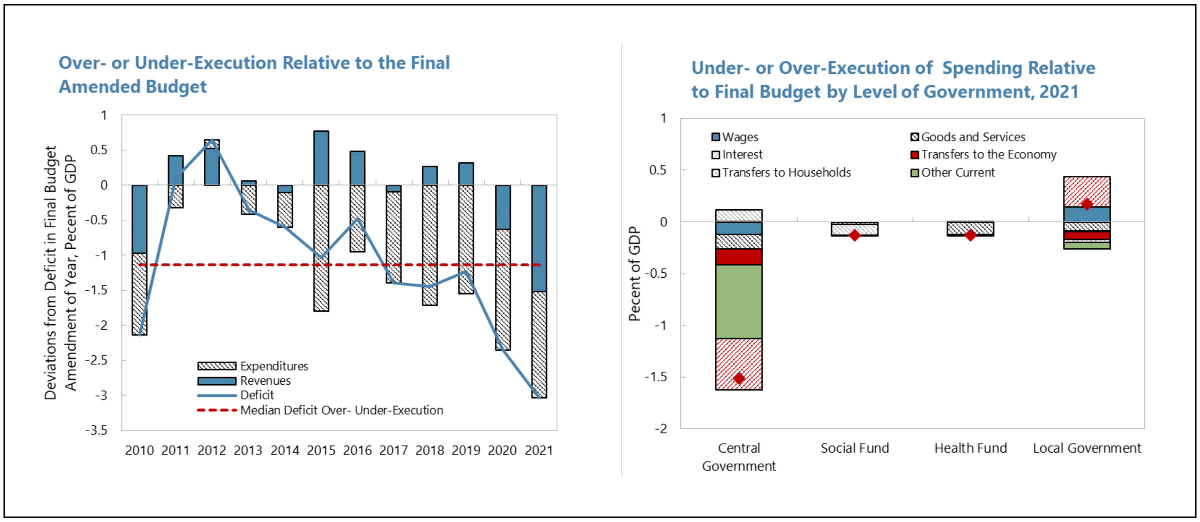
POLICY DISCUSSIONS

A. Fiscal and Energy Policies

Background

12. Fiscal buffers were strong as of end-2021. The general government budget deficit narrowed to 2.6 percent of GDP last year, compared to the approved 5.1 percent of GDP under the program. Significant external support, favorable domestic financing conditions, revenue over-performance, limited pandemic-related restrictions, and spending under-execution in the past two years meant that the authorities ended the year with MDL 11.9 billion (4.9 percent of GDP) in cash buffers. Low execution, largely driven by under-execution of current spending at the central government level, partly reflects emergency built-in budgetary reserves that did not need to be utilized. As of April 8, MDL 4.3 billion (1.6 percent of GDP) of freely usable funds remain in the central government's single treasury account.

13. The 2022 budget approved by parliament before the war in Ukraine envisaged higher allocations for crisis priorities (pandemic and energy prices) and took steps towards addressing development goals. At a cost of 1.4 percent of GDP, measures such as a temporary reduced rate of VAT for the hospitality sector, budget transfers to the Health Fund, and technical unemployment subsidies were expected to cushion against the direct effects of the pandemic, while income tax credits, pensions and disability benefits indexation, and agricultural subsidies were expected to provide support for vulnerable households and businesses. Also, greater allocations were approved to the capital budget—an increase of 0.4 percent of GDP relative to the previous year.



14. Heightened uncertainty in the financial sector has dampened demand for government debt, raising the possibility of binding domestic borrowing constraints at a time when around 35 percent of the domestic debt stock has a maturity of less than one year. Despite large increases in yields, placement of 3-month to 1-year securities since the beginning of March stands at around 70 percent of amounts offered. Given continued uncertainty, net issuance in 2022 is therefore assumed to be zero, with domestic financing only rolling-over existing debt.

Policies

15. In responding to the crises that have unfolded since program approval, the authorities have made efforts to design anti-crisis measures that embed the principles underpinning the structural reforms agenda. The authorities flagged that this includes regularly monitoring and publishing information on the budgetary costs of the refugee crisis (fiscal transparency objective) and the implementation of transparent, targeted, and time-bound energy subsidies, with a view to phasing out early schemes in favor of even more targeted support (in line with the aims of fiscal transparency, expenditure efficiency, and protection of vulnerable households) (MEFP ¶26). The under-execution relative to the end-March indicative target on social spending highlights the need for further improvements to the social safety net, to be undertaken in a holistic way, as the provision

of new forms of social support—notably direct energy compensation—may have served to reduce the take-up of pre-existing ones.

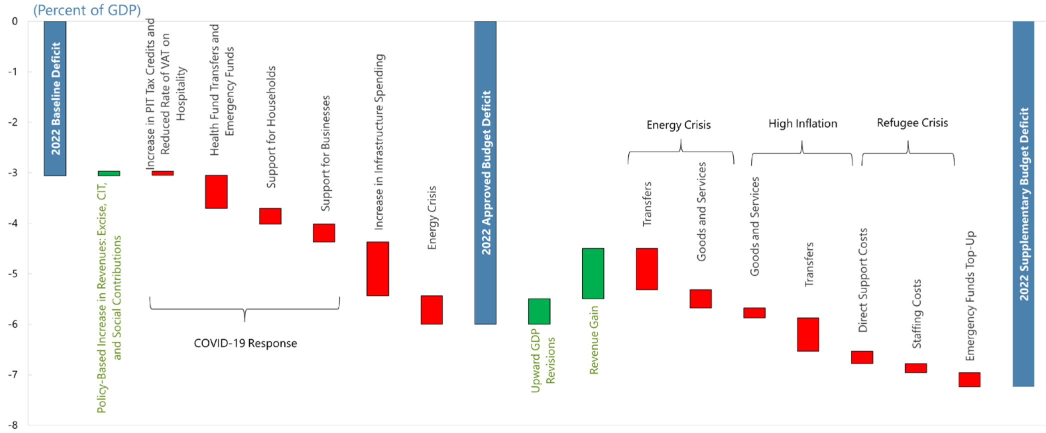
16. The authorities adopted a supplementary budget to respond to the shock from the war in Ukraine. The budget is consistent with a deficit of 7.2 percent of GDP (relative to 6 percent in the previously approved budget) and addresses priority spending needs agreed with staff (**prior action**, MEFP ¶8).

- ***Revenues:*** Revenues are expected to be 1 percent of GDP higher relative to the previously approved budget. High inflation (with CPI inflation outstripping the GDP deflator) boosts revenues by 0.7 percent of GDP, while higher external grants add a further 0.3 percent of GDP. Higher price inflation is expected to keep nominal consumption-based revenues elevated even in the face of lower demand, while risks remain on those revenue items that are less sensitive to inflation (CIT, property tax, and nontax revenues). If wages fail to keep pace with rising prices, income-based revenues (e.g., PIT and social and health contributions) could also be muted. Nonetheless, consumption-based taxes comprise around 45 percent of revenues and firm grant financing commitments provide some security to the revenue base.

- ***Expenditures***: Expenditures increased by 2.5 percent of GDP relative to the previously approved budget in light of the energy crisis, the surge in migrants, and high inflation. Supporting households and businesses amid the surge in energy prices and higher energy costs for public entities entails a fiscal cost of 1.2 percent of GDP (in addition to the 0.7 percent of GDP in the original budget, see Box 2). To cater to the humanitarian needs of refugees fleeing the war (including for direct shelter, medicine, food, income, and additional wage costs of frontline staff), 0.4 percent of GDP has been budgeted, reflecting an assumed duration of the refugee crisis of six months and the provision of some external support covering operational costs of shelters. Meanwhile, high inflation has placed strains on household budgets and adequate indexation of wages, pensions, social protection payments, and departmental budgets is needed to avert a sizable decline in living standards for the poor, maintain social cohesion, and ensure provision of essential services.[1] This will create additional fiscal costs of about 0.9 percent of GDP. Despite availability of more-targeted social payments (Ajutor Social, unemployment benefits, and the heating allowance), take-up has disappointed despite pronounced need. Possible reasons include fragmentation and administrative burdens to households. Enhancing targeting remains an important objective of the authorities under the program, including in the near term (Box 2); given urgent needs, some immediately less-targeted support in 2022 seems warranted.

[1] Indexations of pensions, most social protection payments, and public sector wages are effectively backward-looking, which would help mitigate the risks of fueling an inflation spiral.

General Government Balance, 2022
(Percent of GDP)



Source: Ministry of Finance. IMF staff calculations.

- ***Contingencies*** (MEFP ¶8): Flexible emergency funds in the budget were replenished (0.3 percent of GDP), providing an important buffer should energy prices increase further or other shocks materialize. Given that some 40 percent of revenues in 2021 were trade-related, there are also downside risks to revenue projections due to the ongoing disruptions of trade with Russia, Ukraine, Belarus, and other CIS countries. In provisioning for downside risks, the authorities highlighted the importance of emergency funds built into the budget, outlining how these funds had enabled them to respond nimbly to the multiple crises facing Moldova in the first few months of 2022. Should the realization of risks outstrip the emergency funds in the budget, the authorities signaled that they would be prepared to cut non-priority expenditures.

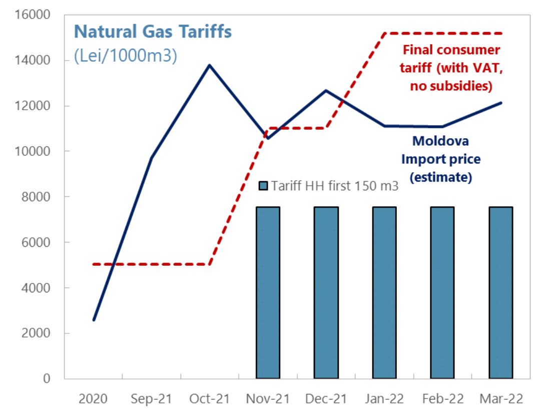
17. An uncertain outlook for financing risks delaying a renewed push on important development priorities in 2023. While revenues are expected to make a modest rebound relative to 2022, spending needs are likely to remain elevated given downside risks induced by the war, a volatile energy market, and sluggish demand for government securities. In the absence of firm additional financing commitments from external partners to support higher spending needs, available financing would dictate a sharp (2.1 percent of GDP) and unwarranted contraction of the deficit in 2023. The authorities agreed that this would represent a suboptimal tightening of fiscal policy and indicated that they would seek to catalyze more external financing ahead of 2023 to ensure adequate fiscal support for the economy. They stressed that they are committed to calibrating the policy response to minimize the impact on the most vulnerable, pointing to the planned better-targeted natural gas subsidy scheme as an important tool.

18. The authorities remain committed to a fiscal structural reform agenda that supports sustainable development (MEFP, ¶10–¶12). The authorities pointed to steady progress made on a wide range of commitments under the program, despite the recent adverse circumstances. Staff agreed that important measures such as the publication of a comprehensive assessment of tax expenditures, operationalizing an integrated taxpayer register, and implementing reforms to the legislation underpinning the PIM framework are advancing. On spending efficiency, complementing the education spending review in 2018, the authorities are in the process of finalizing the agriculture

spending review and have launched a spending review of the health sector while functional reviews of government departments (supported by EU-funded consultants) are also expected to begin this year. The authorities recognize the critical importance of reforming the Ajutor Social minimum income scheme. Policies to promote gender equity by facilitating new mothers' return to work are also being considered. The authorities continue to work on a new Poverty Reduction Strategy, which will be discussed with them later this year. Continuing to strengthen oversight capacity over the SOE sector and fiscal risk monitoring will be key, both in light of pre-existent vulnerabilities and as the current shocks could trigger fiscal costs and/or the materialization of contingent liabilities.[2]

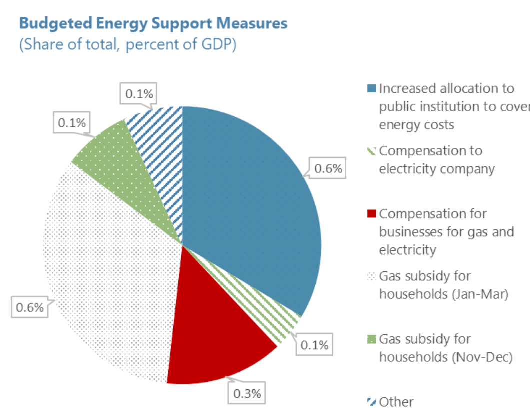
Box 2. Policy Response to the Spike in International Energy Prices

In response to surging import prices, natural gas tariffs have been increased by 300 percent. Following the steep increase in international natural gas prices and the new import contract with Gazprom agreed in Q4 2021, the authorities increased the tariff for natural gas from around 5 lei per m3 to 11 lei in November 2021, and then to 15 lei in January 2022. A subsidized tariff was applied to households' initial 150 m^3 of natural gas consumption per month between November 2021 and March 2022. The reduced rate covered 70 percent of household consumption - with household consumption accounting for about half of total consumption. Electricity tariffs were increased by around 40 percent in April to reflect the higher cost of domestic production.



Source: ANRE, NBS, and IMF staff calculations

The government has budgeted a total of 1.9 percent of GDP in 2022 to shield the economy from rising energy costs. The bulk of the fiscal costs are accounted for by the subsidy for household natural gas consumption over January-March (0.6 percent of GDP) and increased budgetary allocations to public institutions to cover their annual energy costs (0.6 percent of GDP). Smaller amounts cover support for businesses and compensation to the electricity provider for a one-month delay (in March) in increasing electricity tariffs. While import prices for petroleum products have soared, these have been allowed to be passed on to consumer prices with no implications for public expenditures.



Source: Ministry of Finance and IMF staff calculations

Continuous monitoring of energy tariffs will be needed. Import prices for natural gas are expected to increase further in Q2 2022 relative to Q1, keeping the monthly import bill for natural gas as high as 0.4 percent of GDP over the summer. At the current tariff level, there is a high risk that economic costs of Moldovagaz would not be covered, requiring a natural gas tariff increase in June or July. In the electricity sector, an open tender for electricity provision will decide future import prices. If they are markedly higher than current ones, a further electricity tariff increase would likely be necessary.

[2] See IMF Country Reports No. 22/1 and No. 22/61.

Box 2. Policy Response to the Spike in International Energy Prices (concluded)

A more targeted household natural gas subsidy scheme is slated to be put in place in time for the next winter heating season in November. No gas subsidy is envisaged for the period April-October during which household natural gas consumption volumes are only around 25 percent of the level in the winter months. A new scheme is planned for next winter, and according to current plans would cut the monthly cost by 50 percent to 0.1 percent of GDP by explicitly targeting low-income households. Initial ideas revolve around a targeted energy support scheme that draws inspiration from a pre-existing scheme in the Chișinău municipality. This would see the government grade households in terms of their needs according to a range of criteria, including income, household composition, energy efficiency, and energy needs based on data submitted to an online portal. This grading would then be shared with energy companies so that a tailored discount can be applied—if merited—directly at the billing stage. Should electricity tariffs increase sharply, a targeted subsidy scheme for electricity would also be considered by the authorities.

Moldova is taking steps towards improving its energy security. A soon-to-be-finalized loan with the EBRD of over EUR 300 million will, among other measures, allow buying and storing one winter month worth of natural gas consumption in Romania, providing a much-needed buffer to Moldova's natural gas supply. The recent emergency synchronization of the Moldovan Power System with the ENTSO-E Continental Europe is an important step towards improving the security of electricity supply (MEFP ¶26).

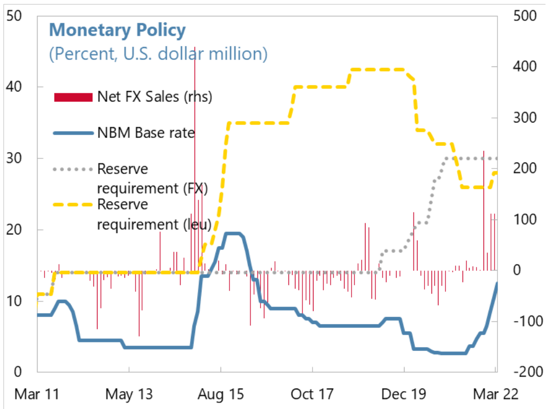
The authorities have rightly put in place contingency plans for a severe adverse price or quantity shock (MEFP ¶26)**.** Given no in-country gas storage facilities and with alternatives to the current suppliers for both gas and electricity implying substantially higher prices as well as possible cap on available volumes, contingency planning—including on possible rationing—remains crucial. If gas import prices significantly were to increase more than expected, further changes in gas tariffs might be needed.

19. **The authorities restated their strong commitment to preserving debt sustainability, which remains a key anchor to the program.** The very strong ownership and commitment to program objectives underpins a medium-term fiscal policy stance which sees public debt peak at 43 percent of GDP in 2024 before declining thereafter—in-line with the program debt anchor to safeguard fiscal sustainability and space to respond to future shocks (MEFP ¶9).

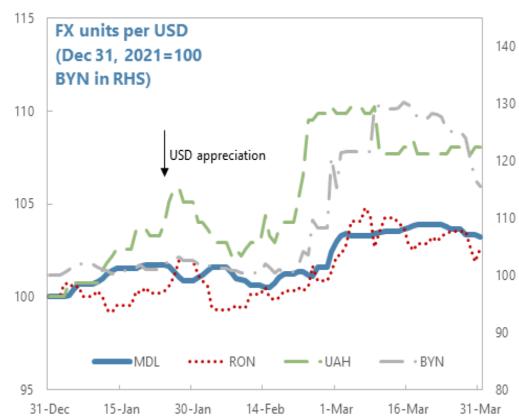
B. Monetary and Exchange Rate Policies

Background

20. **The NBM has increased the policy rate and intervened heavily amid inflation and FX pressures.** Inflation stands well above both the NBM's target band—by about 16 ppt at end-March—and the program's consultation band in March (¶10). The war in Ukraine is also putting pressure on the lei, which has depreciated by 3 percent since the onset of hostilities, with FX interventions by the NBM amounting to about 10 percent of its stock of reserves. In response to these developments, in the first three months of the year the NBM raised the policy rate by a cumulative 600 basis points to 12.5 percent and increased reserve requirements for MDL deposits by 2 percentage points.



Source: National Bank of Moldova.



Policies

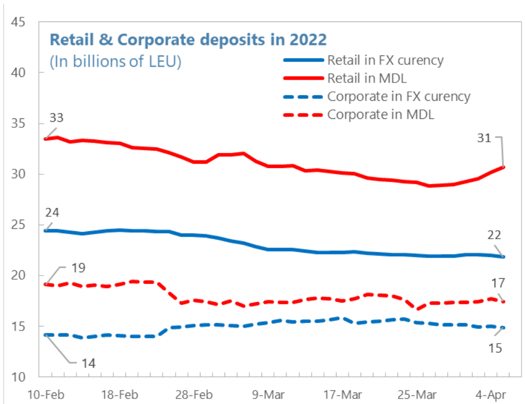
21. Further policy interventions will be needed, but the NBM will have to navigate difficult trade-offs. Staff and the authorities agreed that skyrocketing energy prices and further increases in food inflation, in combination with depreciation pressures, are expected to worsen the near-term inflation outlook. Staff noted that while appropriate as an immediate crisis response, FX interventions should be limited to preventing a disorderly adjustment of the exchange rate and curbing excess volatility. The authorities concurred with the need to carefully balance further policy tightening against the objectives of maintaining banking system liquidity and supporting economic growth, while relying further on exchange rate depreciation and preserving sufficient FX buffers to cope with future shocks. Staff underscored that clear communication about policy responses is crucial to help maintain market confidence amidst ongoing uncertainty.

22. Monetary policy decisions should continue to be data dependent, while the use of additional tools could be considered. The NBM is carefully monitoring signs of accelerating second round effects. Reflecting the current uncertainty, a cautiously calibrated tightening, in a data dependent manner, is warranted to anchor expectations. Such a measured approach could help address the tradeoff between a weakening growth outlook but still high inflation, while maintaining financial stability. Going forward, the NBM should remain pro-active and continue tightening if warranted to contain spiraling inflationary pressures. To alleviate constraints on FX reserves and limit the unintended effects of policy rate increases, staff noted that the NBM could consider steps such as applying an asymmetric interest band on standing facilities and reviewing the reserve requirement strategy. The authorities agreed with staff advice that carefully calibrated FXIs should be used to avoid disorderly market conditions. Partially (rather than fully) sterilizing FXIs and moving away from a full-allotment strategy would help absorb excess liquidity and strengthen monetary transmission while further contributing to safeguard FX reserves. The NBM also reiterated its readiness to activate contingency plans, should severe downside risks materialize (MEFP ¶14).

C. Financial Sector Policies

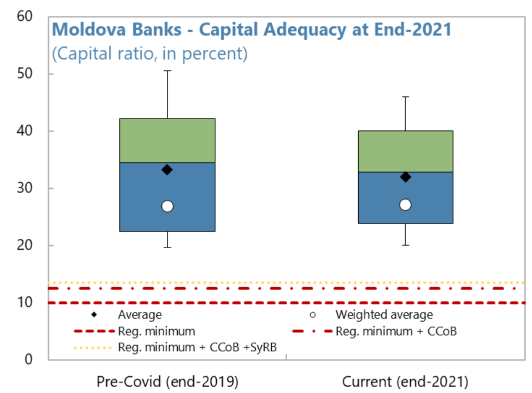
Background

23. The war in Ukraine led to liquidity pressures in the financial system, but buffers are large. Deposit withdrawals in FX and MDL have been draining liquid assets from banks. The trough was reached by end-March, with a close to 8 percent decline in total deposits (relative to mid-February banking system stocks). Retail deposits led the liquidity drag, while corporates merely switched to FX. Even though the system-wide LCR decreased to 282 percent at end-February 2022 from over 390 percent at end-2021, it is still much above the regulatory level of 80. Further, according to recent reverse stress tests by the NBM, banks can withstand significant deposit withdrawals. Banks do not hold significant open currency positions. To address liquidity pressures, the NBM has added MDL through its standing facilities and FX swaps, carried out FX interventions to reduce MDL pressures, and ascertained continued supply of FX banknotes to Moldova interrupted by the closure of the airspace. The largest risks stem from resumption of deposit runs and an excessive use of FXI reducing FX reserves.

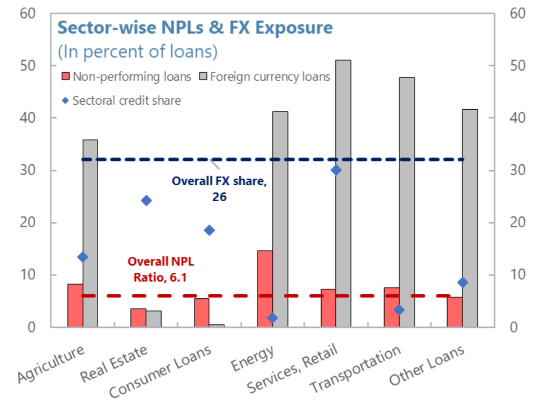


Source: NMB

24. Banks are currently well capitalized to withstand significant loan losses. With an aggregate capital adequacy ratio of about 26 percent at end-2021, banks have comfortable capital buffers. System-wide NPLs decreased to about 6 percent of total loans by end-2021 from the pre-pandemic ratio of about 8 percent (end-2019). Covid-related measures allowed flexibility but did not relax prudential standards. However, there is substantial heterogeneity across sectors, with higher NPLs amongst energy and agricultural sector loans. Although these two sectors only account for 2 and 13 percent of the system-wide credit portfolio, respectively, their vulnerability to energy and food security shocks, together with their relatively higher share of NPLs and foreign currency loans, present a significant source of risk to banks. A substantial worsening of debtor balance sheets, emanating from shocks to the energy and agricultural sectors, high FX exposures, or direct exposures to Russia, Ukraine and Belarus, could erode capital buffers for some banks. If needed, potential capital and liquidity support by foreign parent banks is available for most domestic banks. Other downside risks, including interconnectedness risks from international banks that have large exposures to Russia and Ukraine, sudden stop of external funding for and spillovers from the non-bank sector, and withdrawal of correspondent banking relationships, could further exacerbate financial system stress.

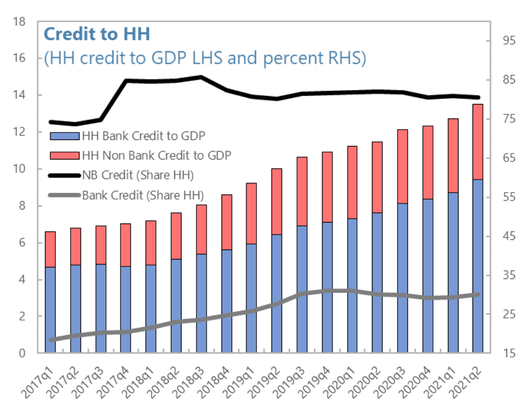


Sources: NBM.
Note: The blue and green boxes show the inter-quartile range with whiskers

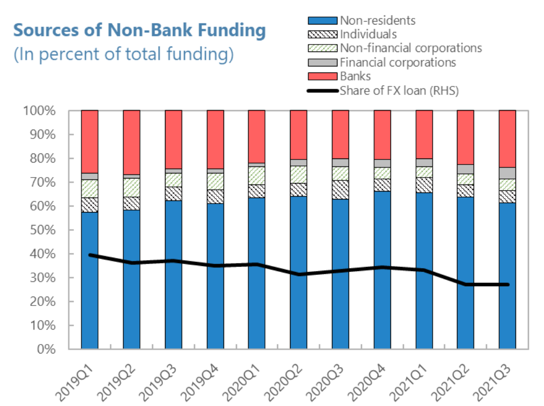


Sources: NBM and IMF staff calculations.

25. Vulnerabilities in the non-bank sector could also affect financial stability if liquidity and exchange rate pressures worsen. Non-bank credit organization (NBCO) loans have increased in recent years, accounting for about 15 percent of total financial sector assets. Previous stress tests suggest that most NBCOs have sufficient capital to weather downside scenarios. NBCOs reported no net open currency positions. Nevertheless, their large share of FX lending (about 30 percent at the end of 2021Q3) exposes them indirectly to exchange rate credit risk, while their funding from non-residents poses maturity and liquidity risks, as a sudden funding stop could lead to an inability to roll over debt in a situation of tight liquidity. The insurance sector is currently undergoing Solvency II gap assessment. In aggregate, the sector remains solvent.



Sources: IMF FSI



Sources: NBFCM & IMF Staff Calculations

Policies

26. The authorities are making progress in implementing structural benchmarks under the program, which will further strengthen the resilience of the financial sector (MEFP ¶15-¶21). The NBM Law will be amended to enhance the NBM's institutional autonomy and provide it with an explicit legal mandate for financial stability by end-June 2022. As part of the recently completed

Financial Sector Stability Review, with the help of technical assistance, the NBM intends to update the macro-solvency stress testing framework and financial resolution tools to aid their financial stability mission. The authorities and staff agreed on a **new SB for end-June 2023** to perform a targeted review of the Bank Recovery and Resolution Law (BRRL) and the relevant secondary legislation. Staff underscored that legislative actions will also improve the ELA framework by enhancing rules for collateral eligibility, risk controls, and internal procedures. Against the backdrop of continued strong retail credit growth and high inflationary pressure, the planned introduction of LTV and DSTI limits will strengthen the macroprudential toolkit and foster responsible lending across banks and non-banks. Per approved regulation, the LCR will increase to 100 percent in 2023 and the authorities are considering a LCR in FX. The authorities noted that they have issued guidance on limiting dividend payouts, to conserve the capital position of banks in an environment of heightened uncertainty. Staff recommend maintaining this until the shock is weathered.

D. Rule of Law and Anti-Corruption

Background

27. Corruption has eroded trust in public institutions and weakened the rule of law. Pervasive and entrenched corruption is seen as the main pillar of an exploitative system built to use state powers and resources for enrichment of economic and political elites and has been recognized by the authorities as one of the most pressing problems in Moldova. Corruption enforcement historically has been focused on low-level acts and actors, and has not resulted in dissuasive, proportionate, or effective sanctions. Judicial actors are viewed as being among the most corrupt and susceptible to undue influence.

Policies

28. The authorities are working on an ambitious reform agenda to combat corruption and strengthen rule of law. Reform priorities include enhancing the independence and accountability of anti-corruption and judicial bodies; reducing avenues for political influence in legal and regulatory processes; instilling more trust in the justice system; and holding corrupt actors accountable for abuse of public office for private gain. In March, the authorities began the process of the extraordinary vetting of judges and prosecutors, beginning with candidates to the self-governing bodies—the Superior Council of Prosecutors (SCP) and the Supreme Council of Magistrates (SCM). In April, the authorities passed legislation improving the selection process for the heads of the specialized prosecution bodies, including the Anti-Corruption Prosecutor (APO) (**end-March 2022 SB**). The authorities have committed to initiating the selection process for the head of the APO with the creation of the special pre-selection committee (which will include experts with international experience) and fill the vacant position pursuant to the new procedure by the end of the year (**new end-December 2022 SB**). The authorities have also committed to amending the criminal law framework to add clear criteria and procedures for the application of plea bargaining and other sentence reduction or mitigation provisions and to prohibit the reduction of a term of

imprisonment in corruption cases below the statutory minimum (end-December 2022 SB) and to narrow the focus of key anti-corruption bodies to high-level corruption (end-December 2022 SB).

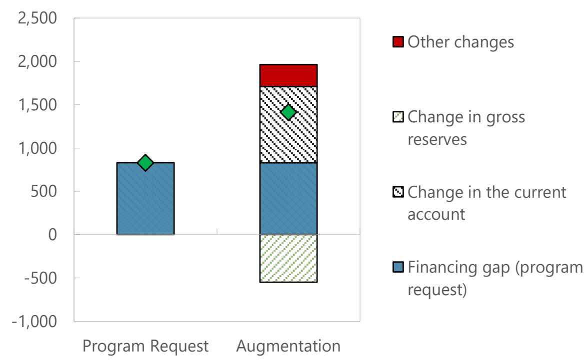
PROGRAM MODALITIES

29. Staff supports the authorities' request for an ad-hoc review, completion of the inflation consultation, and the augmentation and rephasing of access under the ECF/EFF arrangements, to meet pressing financing needs resulting from the war in Ukraine and its spillovers. Performance under the ECF/EFF-supported program is strong, the **prior action** is on track of being met, and the authorities have confirmed that the continuous PC on external payment arrears is being met at this time (¶11).

- Under agreed policies, the ***balance of payments need*** is estimated at a combined US$1.4 billion over 2022–24, some US$0.6 billion greater than at approval of the current arrangement, largely on account of additional fiscal needs (about US$0.4 billion), the worsening current account balance, and the need to protect reserves over the medium term. Additional fiscal financing needs—on top of programmed amounts at the time of ECF/EFF approval—are estimated at MDL 6 billion in 2022. Under a fiscal stance consistent with currently identified financing sources, additional fiscal financing needs in 2023 are estimated at MDL 1 billion, while a more optimal fiscal envelope would increase this amount by another MDL 3-4 billion.

- Staff supports an ***augmentation*** of SDR 194.26 million (112.6 percent of quota), increasing total access under the ECF/EFF to SDR 594.26 million (344.5 percent of quota; Table 9), with the full ECF augmentation being available in a single disbursement in May 2022 to address pressing balance of payments difficulties, arising from the spike in energy prices, trade disruptions, adverse confidence effects, the inflow of refugees

Total External Financing Gap, 2022-24
(USD millions)



Moldova: Financing Needs and Sources, 2022-24	2022	2023	2024
Fiscal, MDL millions			
Fiscal Financing Needs	21,356	15,522	16,326
Budget Sources	9,975	7,677	10,906
Net Domestic Issuance	0	5,000	13,121
Other Domestic 1/	-321	-9,166	-4,784
External Project Loans 2/	10,296	11,843	2,569
IMF	4,056	4,187	3,166
ECF/EFF: Program	4,056	4,187	3,166
World Bank	2,970	2,150	916
DPO: Program	2,970	2,150	916
European Commission	2,386	1,509	1,339
DG ECFIN: MFA Loans	811	1,006	1,205
DG ECFIN: MFA Grants	347	252	134
DG NEAR: Budget Support Grants	1,228	252	0
Bilateral Support	1,969	0	0
AFD: Budget Support Loan	347	0	0
AFD: Sectoral Support Loan	1,158	0	0
Government of Poland: Budget Support Loan	463	0	0
Balance of Payments, USD millions			
BOP financing needs	1180	333	-104
Reserves drawdown	602	-37	-489
External financing	578	370	385
IMF	208	200	286
World Bank - DPO	150	100	40
France - AFD	76	0	0
Government of Poland	23	0	0
European Commission	121	70	59
DG ECFIN: MFA Loans	41	47	53
DG ECFIN: MFA Grants	18	12	6
DG NEAR: Budget Support Grants	62	12	0

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

and the indirect impact of sanctions. The ad-hoc review is justified for the ECF as these financing needs cannot await the next scheduled review in June, with the amount of the single disbursement is limited to what is immediately needed. The augmentation is consistent with preserving the blending ratio of ECF/EFF resources of 1:2 over the duration of the program. The immediate disbursement is equivalent to SDR 108.15 million (62.70 percent of quota, of which SDR 64.75 million under the ECF and 43.40 million under the EFF). All 2022–23 tranches will be used for direct budget support and the remaining tranches split each ECF/EFF disbursement/purchase equally between the NBM and the MOF.

- Given heightened uncertainty and pressing financing needs, a ***higher-frequency review schedule*** is proposed for the remainder of 2022 (MEFP Table 1). Specifically, end-June, end-September, and end-December are proposed as test dates for the first, second, and third reviews, respectively. Semi-annual reviews based on end-June and end-December test dates are envisaged to be resumed thereafter.

- The ***quantitative performance criteria (QPCs) have been recalibrated*** in line with the proposed new test dates and the revised macroeconomic projections, which reflect the multiple shocks afflicting the Moldovan economy. In addition, the inflation consultation clause has been modified to (i) anchor the program's monetary framework more closely to the inflation forecast and its evolving outlook *(center point modification)* and (ii) to account for the significant uncertainties surrounding the near-term inflation outlook *(outer band modification)* (MEFP Table 1; TMU ¶18). While the width of the inner bands remains the same, staff proposes to widen the outer limits of the consultation band by 1 percentage point such that the inflation path under the adjusted outer-band still lies within the range of historical forecast errors for inflation in Moldova.[3]

30. Staff propose updated program conditionality. Two new structural benchmarks are proposed with a view to support the authorities structural reform agenda (MEFP Table 2): (i) for **end-June 2023** on a targeted review of the BRRL and the relevant secondary legislation; and (ii) for **end-December 2022** on the appointment of the new head of the APO in accordance with the strengthened Law on Prosecution Service.

31. The program remains fully financed in 2022-23. There are firm commitments of program financing covering the next 12 months and good prospects for the remainder of the program period. The external financing need in 2022 is expected to be fully covered by disbursements for budget support from the ECF/EFF, the World Bank, the European Commission, the Agence Française de Développement, and the Government of Poland (text table; DSA, ¶4). Similar sources will finance

[3] Without adding any risk factors, the simple forecast-error based confidence interval for inflation is about ±2 percentage point. This is likely to be a conservative estimate in the current environment, where there is heightened uncertainty about geopolitical developments, energy price increases, supply disruptions and related base effects.

the external financing gap in 2023–24, with the program also expected to catalyze additional donor financing to ensure it remains fully financed.

32. Moldova's capacity to repay its obligations to the Fund is considered adequate, conditional on successful program implementation and absent major additional shocks. The Fund's exposure will peak at 7 percent of GDP in 2024, before declining thereafter. Total debt service to the Fund will peak at 2.3 percent of total exports in 2023. Moldova has a strong track record of repayments to the Fund, and the risk of debt distress is assessed to be moderate (DSA). Moldova's debt service projections would be improved by a stabilization of short-term debt and sustained revenue mobilization under the program. Although the program's macro framework is based on conservative assumptions that incorporate the latest WEO revisions, a longer than expected impact from the war in Ukraine, a climate-related shock, or the materialization of other major risks, could constraint capacity to repay. Risks to the capacity to repay stem from the volatile political environment and the possibility of policy reversals. Risks would be further mitigated by leveraging the Funds' catalytic role.

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

STAFF APPRAISAL

34. Moldova's economy is being hit hard by the spillovers from the war in Ukraine. The war and the international sanctions imposed on Russia and Belarus have resulted in significant spillovers to Moldova, with implications yet to fully play out. Trade disruptions and surging energy prices will weaken the current account, hamper growth, and fuel inflation. Moreover, confidence effects could aggravate financial conditions and real economic activity, while the continued influx of a large number of refugees is increasing budgetary needs.

35. The authorities' crisis response has been swift and in line with the principles of the program. FX interventions have been sizeable but focused on limiting excessive exchange rate volatility. Energy subsidies have been implemented in a transparent way and have been allowed to expire as specified in the initial sunset clause. A new, targeted support scheme protecting the most vulnerable is under development ahead of the next winter heating season. Despite temporary liquidity pressures, the financial sector has continued to be resilient, supported by strong progress on structural benchmarks under the program.

36. The supplementary 2022 budget appropriately addresses urgent spending priorities, while debt sustainability remains a key program anchor. As agreed with staff, the supplementary budget includes measures to protect vulnerable households, accommodate migrants' humanitarian needs and maintain social cohesion. Strong implementation of the budget envelope and vigilance in monitoring of revenue performance and additional spending pressures will be important. In that regard, targeting of subsidy schemes for the energy cost will be further improved. Structural reforms agreed under the program will enhance revenue mobilization, spending efficiency and transparency, and further strengthen the resilience of the financial sector.

37. Despite the difficult environment, the program is on track with good progress made on key reform commitments. The continuous PC on external payment arrears is being met at this time. The authorities successfully completed the end-March structural commitments on fiscal governance, financial sector oversight, oversight of state-owned enterprises, as well as on strengthening anti-corruption legislation (though the latter with a slight delay). Good progress is being made on the integrated taxpayers' register and the comprehensive tax expenditure analysis. The NBM is preparing draft legislative amendments to strengthen provisions for its institutional autonomy, while also working jointly with the NCFM to develop draft regulations to boost the macroprudential toolkit and foster responsible lending.

38. Meanwhile, the program's focus on addressing significant governance weaknesses and institutional vulnerabilities remains critical and has been further strengthened. Structural reforms to strengthen governance frameworks and institutions can yield large medium-term gains. Strengthening the rule of law, addressing wide-spread corruption, and fully embracing the independence of key institutions are key priorities. The authorities and staff continue to agree that reforms under the program—appropriately sequenced and resolutely implemented—can improve the business environment, foster competition and innovation, unlock private investment, curb brain drain, accelerate human capital accumulation, and increase productivity.

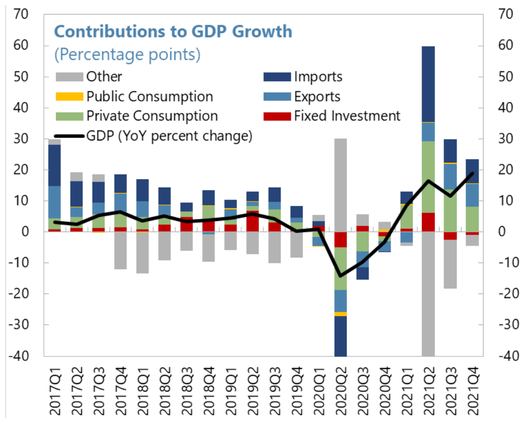
39. Given exceptionally high uncertainty, the authorities have appropriately developed robust contingency plans. The 2022 budget incorporates emergency contingency funds which can be deployed should renewed spending pressures arise. The NBM stands ready to deploy its full toolkit to maintain financial stability if renewed or worsening pressures arise. On energy policy, the authorities are committed to passing on further price shocks to tariffs with additional fiscal support contingent on room in the budget. They have also prepared plans in case volume reductions are needed in a severe adverse scenario.

40. Staff supports the completion of the ad hoc review, inflation consultation, modification of performance criteria, and augmentation and rephasing of access under the current ECF/EFF arrangements. In light of Moldova's pressing balance of payments financing needs, vulnerability to ongoing spillovers from the war in Ukraine, and the authorities' demonstrated commitment to program objectives, Fund approval of an augmentation of SDR 194.26 million (112.6 percent of quota) and the immediate disbursement equivalent to SDR 108.15 million (62.70 percent of quota) is warranted. Staff support the new proposed SBs, and a recalibration of the end-June, end-September, and end-December ITs and QPCs. The continuous PC on external payment arrears

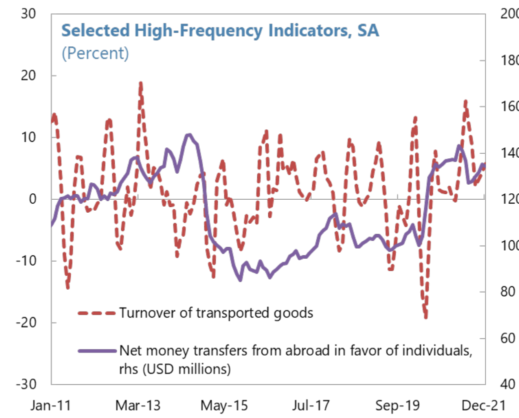
is being met at this time. While risks to the program are substantial, the augmented arrangements would protect the Moldovan economy in the face of regional turmoil, catalyze external financing and give further impetus to crucial reforms which will foster inclusive medium-term growth. A comprehensive review of policies under the program will be undertaken at the time of the next review.

Figure 2. Moldova: Real Sector Developments

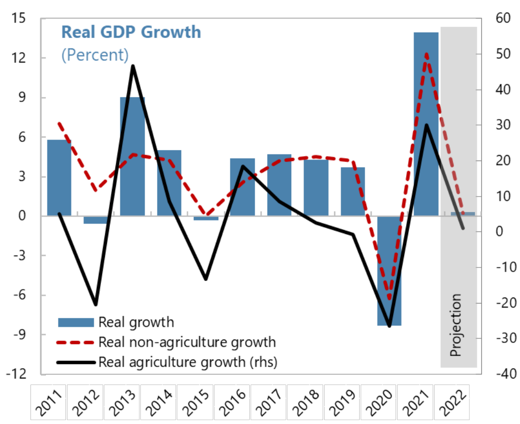
The post-pandemic rebound was strong…



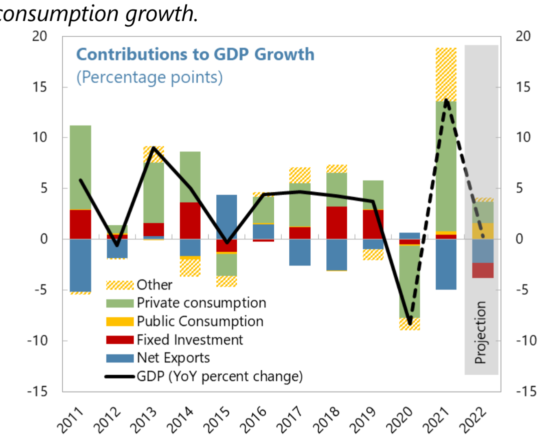
…. supported by important foreign currency inflows that helped sustain demand.



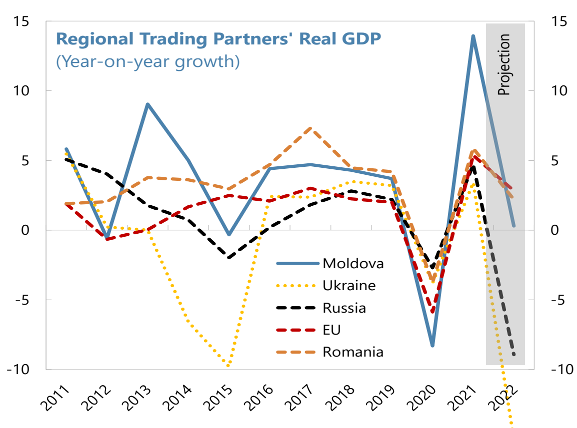
Economic activity is expected to stagnate in 2022…



…on account of a deterioration of the trade balance, lower investment, negative net exports, and a slowdown in consumption growth.



Main trade partners are adversely affected by the conflict.



Real wage growth turned negative in late 2021, due to the sharp increase in inflation.

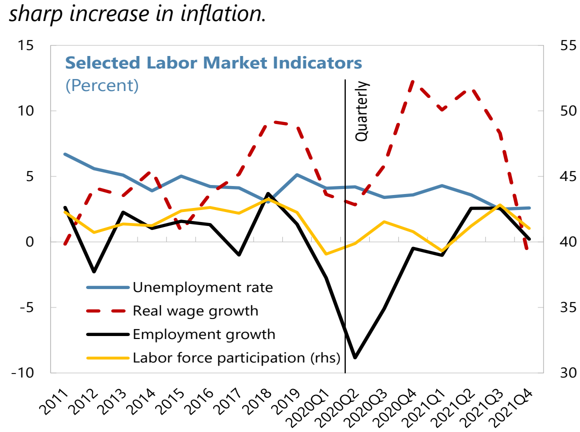
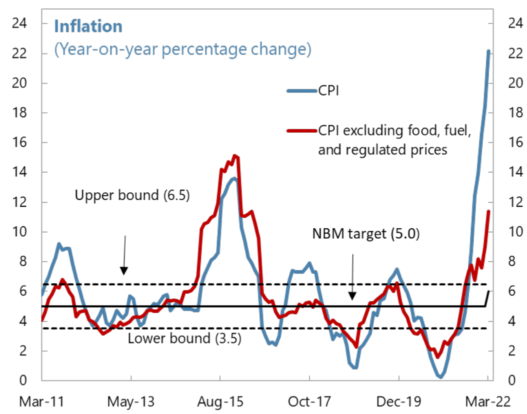
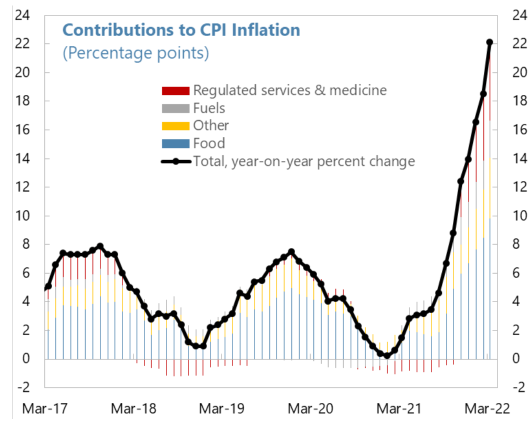


Figure 3. Moldova: Monetary Developments

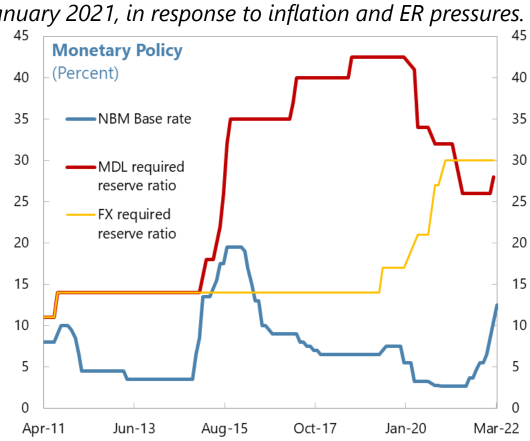
Headline inflation spiked since the beginning of the year…



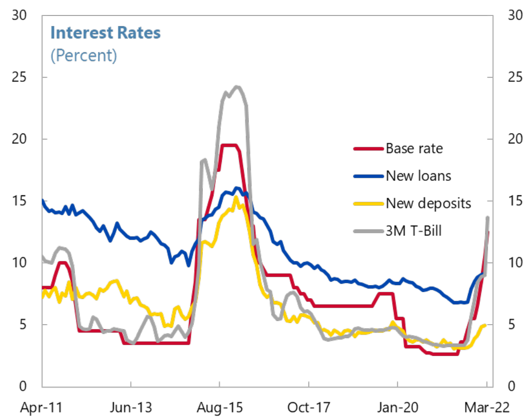
…mainly on account of a sharp increase in food and energy prices.



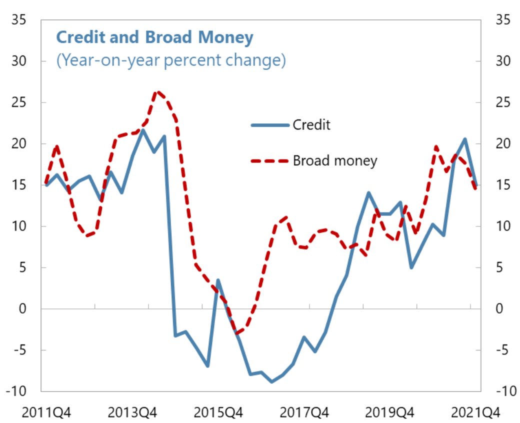
The base rate was increased by a cumulative 600 bps since January 2021, in response to inflation and ER pressures.



Credit conditions have also tightened.



Liquidity in the economy has been under pressure.



The ER deprecated by 3 percent, and reserves declined by about 10 percent since the beginning the war.

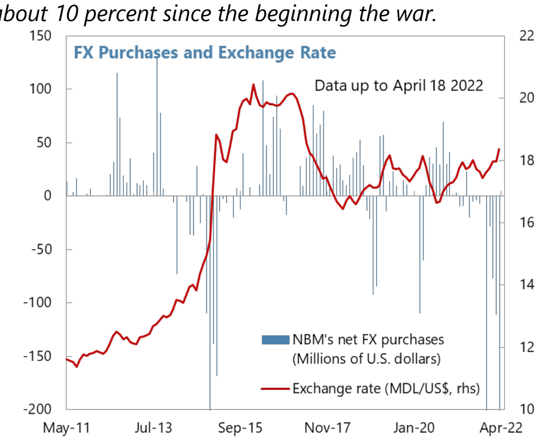
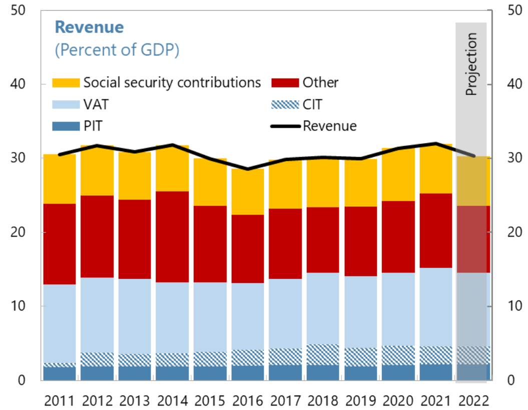
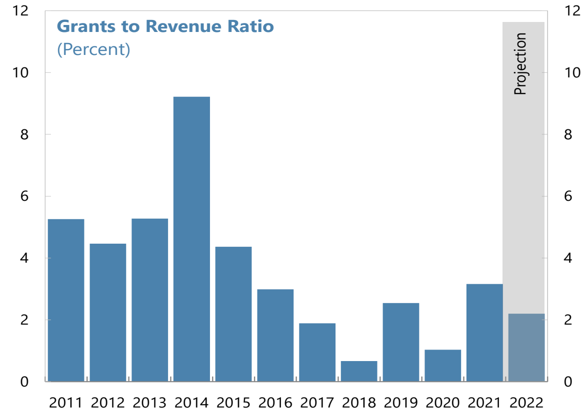


Figure 4. Moldova: Fiscal Sector Developments

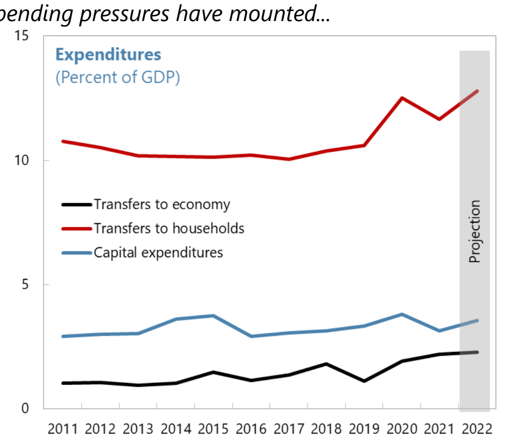
Revenues are showing signs of decline...



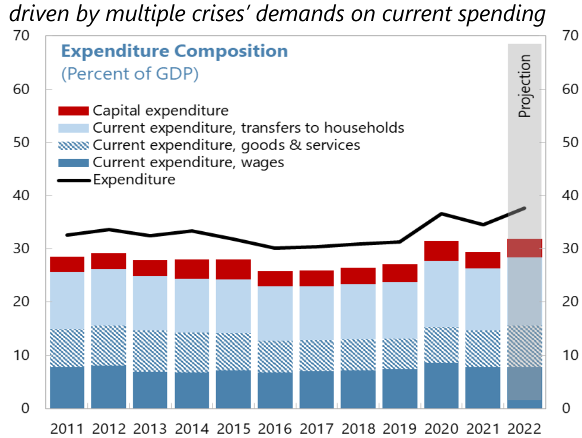
...at a time when favorable external support is due to be lower.



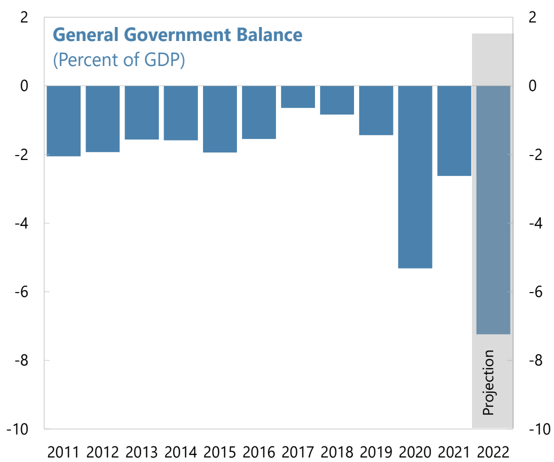
Spending pressures have mounted...



driven by multiple crises' demands on current spending



The deficit is expected to hit a 10-year high



The overall risk of debt distress was reclassified as moderate.

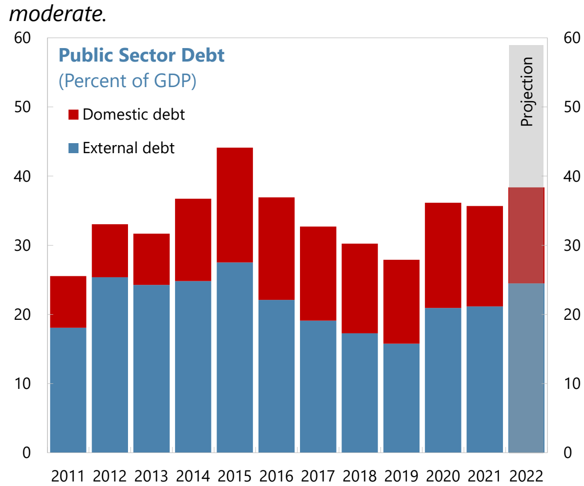
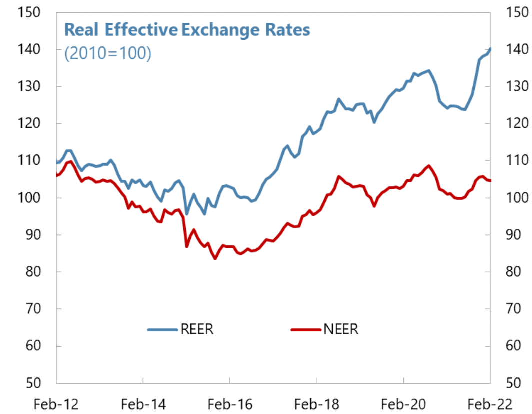
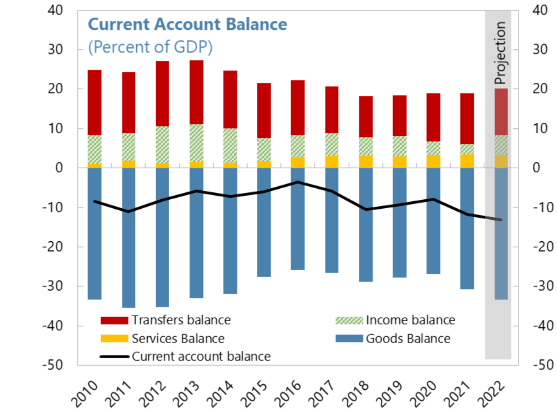


Figure 5. Moldova: External Sector Developments

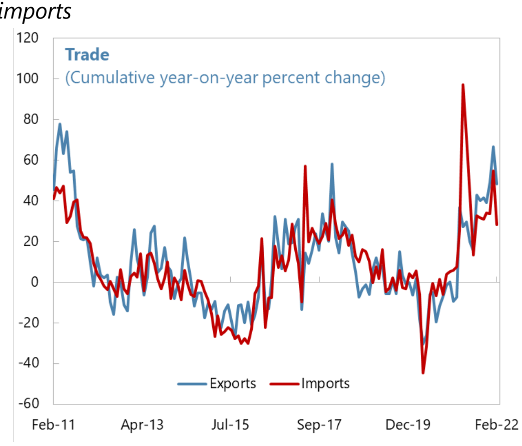
The REER has recently increased, owing to growing inflation differential with trading partners.



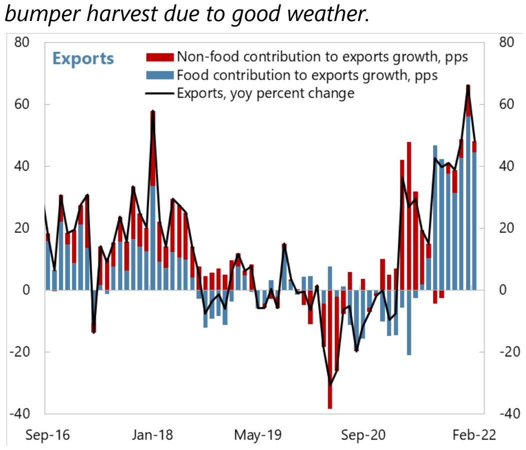
The CAD worsened in 2021 as economic activity rebounded, with worsening outlook in 2022



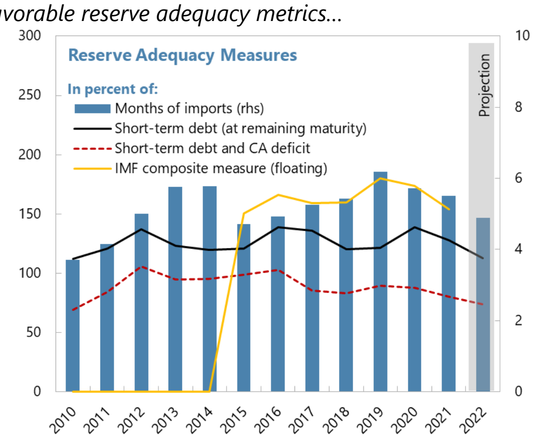
Trade picked up in the 2021H2, with exports outstripping imports



Exports of food produce increased in 2021 reflecting a bumper harvest due to good weather.



The financial account in 2021 accumulated inflows that more than covered the current account deficit, with favorable reserve adequacy metrics…



with net IIP showing signs of recovery after declining in the past few years

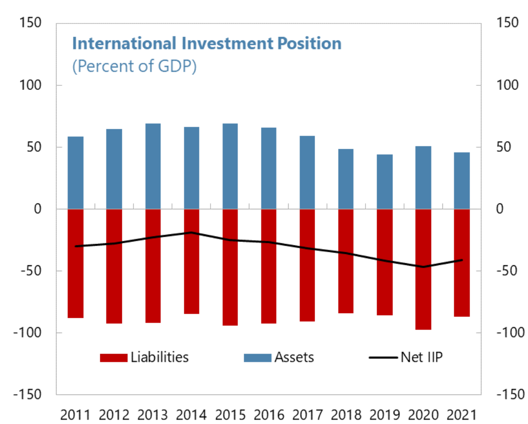


Table 1. Moldova: Selected Economic Indicators, 2017–2027 1/

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent change, unless otherwise indicated)										
Real Sector Indicators											
Gross domestic product											
Real growth rate	4.7	4.3	3.7	-8.3	13.9	0.3	2.0	5.8	5.4	5.0	5.0
Demand	5.9	6.0	3.7	-6.1	15.3	2.1	2.8	5.2	4.8	4.5	4.1
Consumption	4.7	3.3	2.9	-5.9	13.2	3.7	2.8	4.3	4.5	4.4	4.4
Private	5.3	3.9	3.3	-8.4	15.6	2.5	3.0	4.0	4.3	4.3	4.3
Public	1.1	-0.2	0.5	-0.8	2.0	9.8	1.8	6.0	5.5	4.8	4.6
Gross fixed capital formation	8.0	14.5	11.9	-2.1	1.7	-6.0	6.3	11.4	9.4	8.4	8.6
Net Exports of goods and services	-11.1	-13.0	-3.8	2.7	-21.1	-8.5	-5.3	-3.3	-2.9	-2.7	-0.5
Exports of goods and services	10.9	7.2	8.2	-18.5	17.5	-4.3	4.9	7.5	7.3	7.2	8.3
Imports of goods and services	11.0	9.7	6.2	-11.4	19.2	1.8	5.1	5.5	5.3	5.3	5.1
Nominal GDP (billions of Moldovan lei)	178.9	192.5	210.4	199.7	241.9	273.5	295.7	330.0	366.9	406.4	450.2
Nominal GDP (billions of U.S. dollars)	9.7	11.5	12.0	11.5	13.7	13.8	13.8	14.4	15.6	16.8	18.0
Consumer price index (average)	6.5	3.6	4.8	3.8	5.1	23.5	6.7	5.0	5.0	5.0	5.0
Consumer price index (end of period)	7.3	0.9	7.5	0.4	13.9	16.5	5.0	5.0	5.0	5.0	5.0
GDP deflator	6.2	3.2	5.4	3.5	6.3	12.7	6.0	5.5	5.5	5.5	5.5
Average monthly wage (Moldovan lei)	5695	6,443	7,356	8,104	8,619	9,328	10,150	11,250	12,425	13,675	13,675
Average monthly wage (U.S. dollars)	308	383	419	468	487	471	472	491	528	565	547
Unemployment rate (annual average, percent)	4.1	3.1	5.1	3.8	3.5	3.5	3.5	3.5	3.5	3.5	3.5
	(Percent of GDP)										
Saving-Investment Balance											
Foreign saving	5.7	10.6	9.3	7.9	11.7	13.0	12.0	10.6	9.7	9.1	8.5
National saving	16.5	13.7	15.9	17.1	12.5	11.9	13.7	15.6	16.8	17.6	18.6
Private	14.1	11.5	14.0	18.6	12.0	15.6	16.1	16.3	16.6	16.9	17.6
Public	2.4	2.3	1.9	-1.5	0.5	-3.7	-2.5	-0.7	0.3	0.7	1.0
Gross investment	22.3	24.3	25.2	24.9	24.2	24.8	25.6	26.2	26.5	26.7	27.1
Private	19.3	21.2	21.9	21.1	21.1	21.3	21.9	22.0	22.1	22.3	22.7
Public	3.0	3.1	3.3	3.8	3.1	3.5	3.7	4.3	4.4	4.4	4.4
Fiscal Indicators (General Government)											
Primary balance	0.5	-0.2	-0.8	-4.7	-2.0	-6.4	-4.5	-4.1	-3.3	-2.7	-2.4
Overall balance	-0.6	-0.8	-1.4	-5.3	-2.6	-7.2	-5.1	-4.9	-4.0	-3.6	-3.3
Stock of public and publicly guaranteed debt	32.5	29.9	27.6	33.7	32.5	38.4	40.8	43.0	42.8	41.8	40.6
	(Percent change, unless otherwise indicated)										
Financial Indicators											
Broad money (M3)	9.4	7.8	8.2	19.6	11.3	-0.1	...	...	...	...	...
Velocity (GDP/end-period M3; ratio)	2.3	2.3	2.3	1.9	2.0	2.3	...	...	...	...	...
Reserve money	11.2	17.7	7.6	18.8	3.4	2.0	...	...	...	...	...
Credit to the economy	-3.4	4.1	11.5	10.3	21.0	-6.4	...	...	...	...	...
Credit to the economy, percent of GDP	21.3	20.6	21.0	24.4	24.4	20.2	...	...	...	...	...
	(Millions of U.S. dollars, unless otherwise indicated)										
External Sector Indicators 2/											
Current account balance	-555	-1212	-1112	-906	-1595	-1792	-1644	-1532	-1508	-1525	-1536
Current account balance (percent of GDP)	-5.7	-10.6	-9.3	-7.9	-11.7	-13.0	-12.0	-10.6	-9.7	-9.1	-8.5
Remittances and compensation of employees (net)	1,494	1,669	1,729	1,669	1,791	1,976	2,078	2,202	2,288	2,352	2,474
Gross official reserves 3/	2,803	2,995	3,060	3,784	3,902	3,300	3,338	3,826	3,973	4,071	4,189
Gross official reserves (months of imports)	5.3	5.4	6.2	5.7	5.5	4.5	4.3	4.6	4.5	4.3	4.5
Exchange rate (Moldovan lei per USD, period average)	18.5	16.8	17.6	17.3	17.7	...	...	...	...	...	...
Exchange rate (Moldovan lei per USD, end of period)	17.1	17.1	17.2	17.2	17.7	...	...	...	...	...	...
Real effective exch.rate (average, percent change)	10.5	9.1	2.1	5.3	-1.7	...	...	...	...	...	...
External debt (percent of GDP) 4/	70.4	65.5	68.9	73.5	63.6	68.7	73.6	75.4	72.6	67.9	64.1
Debt service (percent of exports of goods and services)	12.6	14.7	13.4	15.9	10.8	11.7	12.5	13.0	12.9	13.9	12.6

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

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

4/ Includes private and public and publicly guaranteed debt.

Table 2a. Moldova: Balance of Payments, 2017–2027 1/

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

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-555	-1,212	-1,112	-906	-1,595	-1,792	-1,644	-1,532	-1,508	-1,525	-1,536
Merchandise trade balance	-2,559	-3,294	-3,312	-3,094	-4,190	-4,592	-4,610	-4,714	-4,879	-5,051	-5,277
Exports	1,866	1,975	2,118	1,944	2,562	2,562	2,742	2,961	3,207	3,479	3,845
Imports	4,425	5,269	5,430	5,039	6,753	7,154	7,351	7,675	8,086	8,530	9,121
Services balance	304	356	351	382	458	464	496	554	616	682	756
Exports of services	1,253	1,477	1,544	1,278	1,635	1,820	1,968	2,197	2,442	2,706	2,997
Imports of services	949	1,121	1,193	895	1,177	1,356	1,472	1,643	1,826	2,023	2,241
Income balance	556	536	615	390	372	685	766	843	910	955	1,009
Compensation of employees	762	854	878	730	763	881	934	990	1,040	1,092	1,157
Income on direct and portfolio investment	-204	-316	-262	-339	-390	-195	-167	-147	-128	-136	-147
Other income	-2	-2	-2	-1	-2	-1	-1	-1	-1	-1	-1
Current transfer balance	1,143	1,190	1,234	1,415	1,766	1,651	1,703	1,786	1,845	1,889	1,976
Remittances	732	815	851	939	1,028	1,095	1,144	1,212	1,248	1,260	1,317
Budget transfers	144	100	102	112	53	123	95	83	82	87	90
Other transfers	268	275	281	364	684	433	464	491	516	542	569
Capital and Financial Account Balance	-1,013	-1,391	-1,096	-1,259	-1,664	-711	-1,393	-1,608	-1,640	-1,690	-1,742
Capital account balance	-21	-36	-55	-66	-51	-38	-46	-53	-53	-56	-59
Financial account balance (inflows: "-")	-1,034	-1,427	-1,151	-1,325	-1,715	-749	-1,439	-1,661	-1,694	-1,746	-1,800
Foreign direct investment, net (inflows: "-")	-139	-259	-468	-152	-239	-65	-202	-222	-251	-302	-317
Portfolio investment and derivatives, net	-1	5	5	0	-6	-4	0	-1	3	3	4
Other investment, net	-895	-1,173	-688	-1,174	-1,470	-680	-1,237	-1,438	-1,446	-1,446	-1,488
Loans	-166	-111	-119	-229	-148	-138	11	-38	-16	-5	-33
General government, net	-121	17	1	-121	-51	-104	65	91	106	126	99
Private sector, net	-45	-128	-120	-108	-97	-34	-54	-129	-121	-131	-132
Other capital flows, net	-729	-1,061	-569	-944	-1,321	-542	-1,248	-1,400	-1,430	-1,441	-1,455
Errors and omissions	76	47	18	-84	39	0	0	0	0	0	0
Overall Balance	534	226	2	269	107	-1,081	-251	76	133	165	206
Financing	-426	-226	-2	-269	-107	1,081	251	-76	-133	-165	-206
Gross international reserves (increase: "+")	531	236	60	637	206	-601.8	37	489	147	97	118
Use of Fund credit, net	-44	-55	-36	186	31	188	141	320	14	-67	-88
Monetary authorities	-44	-41	-37	-43	-34	-13	-12	268	42	-30	-34
Purchases	18	21	18	7	0	0	0	286	64	0	0
Repurchases	62	62	55	50	34	13	12	18	22	30	34
General government	0	-14	1	229	65	202	153	52	-28	-37	-54
Purchases	26	13	28	254	81	208	200	143	32	0	0
Repurchases	26	27	26	25	17	7	47	91	60	37	54
Exceptional financing	150	65	94	182	68	290	147	93	0	0	0
European Commission	36	0	93	104	59	41	47	53	0	0	0
World Bank	5	60	1	54	0	150	100	40	0	0	0
Other official bilateral donors	108	5	0	24	10	100	0	0	0	0	0
	(Percent of GDP, unless otherwise indicated)										
Memorandum Items:											
Gross official reserves (millions of U.S. dollars) 2/	2,803	2,995	3,060	3,784	3,902	3,300	3,338	3,826	3,973	4,071	4,189
Months of imports of good and services	5.3	5.4	6.2	5.7	5.5	4.5	4.3	4.6	4.5	4.3	4.5
Percent of short term debt and CA deficit	85.5	83.2	89.3	87.5	80.5	68.2	66.2	71.9	68.6	72.2	99.2
Pct of short-term debt at remaining maturity	135.7	120.4	121.4	138.6	127.7	103.3	95.1	100.2	93.1	99.2	99.2
Pct of the IMF composite measure (floating) 3/	165.8	159.3	159.8	179.8	173.6	141.9	135.4	144.7	141.9	141.4	141.6
Current account balance	-5.7	-10.6	-9.3	-7.9	-11.7	-13.0	-12.0	-10.6	-9.7	-9.1	-8.5
Goods and services trade balance	-23.3	-25.6	-24.7	-23.5	-27.3	-29.9	-29.9	-28.9	-27.3	-26.0	-25.1
Export of goods and services	32.3	30.1	30.6	27.9	30.7	31.7	34.2	35.8	36.2	36.9	38.0
Import of goods and services	55.6	55.8	55.3	51.5	58.0	61.6	64.2	64.7	63.6	62.9	63.1
Foreign direct investment balance	1.4	2.3	3.9	1.3	1.7	0.5	1.5	1.5	1.6	1.8	1.8
	(Percent change of amounts in U.S.dollars, unless otherwise indicated)										
Exports of goods	19.8	5.8	7.2	-8.2	31.8	0.0	7.0	8.0	8.3	8.5	10.5
Exports of services	17.6	17.9	4.5	-17.2	27.9	11.4	8.1	11.6	11.2	10.8	10.8
Imports of goods	21.7	19.1	3.0	-7.2	34.0	5.9	2.8	4.4	5.4	5.5	6.9
Imports of services	12.3	18.2	6.4	-24.9	31.5	15.2	8.5	11.6	11.2	10.8	10.8
Remittances and compensation	15.4	14.6	14.4	14.5	13.1	14.3	15.1	15.3	14.7	14.0	13.7
Debt service (pct of exports of goods and services)	12.6	14.7	13.4	15.9	10.8	11.7	12.5	13.0	12.9	13.9	12.6

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

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

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

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

Table 2b. Moldova: Balance of Payments, 2017–2027 1/

(Percent of GDP, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-5.7	-10.6	-9.3	-7.9	-11.7	-13.0	-12.0	-10.6	-9.7	-9.1	-8.5
Merchandise trade balance	-26.5	-28.8	-27.7	-26.8	-30.6	-33.2	-33.5	-32.7	-31.3	-30.1	-29.3
Exports	19.3	17.2	17.7	16.9	18.7	18.6	19.9	20.5	20.6	20.7	21.3
Imports	45.8	46.0	45.4	43.7	49.4	51.8	53.5	53.3	51.9	50.8	50.6
Services balance	3.1	3.1	2.9	3.3	3.3	3.4	3.6	3.8	4.0	4.1	4.2
Exports of services	13.0	12.9	12.9	11.1	12.0	13.2	14.3	15.2	15.7	16.1	16.6
Imports of services	9.8	9.8	10.0	7.8	8.6	9.8	10.7	11.4	11.7	12.1	12.4
Income balance	5.7	4.7	5.1	3.4	2.7	5.0	5.6	5.8	5.8	5.7	5.6
Compensation of employees	7.9	7.5	7.3	6.3	5.6	6.4	6.8	6.9	6.7	6.5	6.4
Income on direct and portfolio investment	-2.1	-2.8	-2.2	-2.9	-2.9	-1.4	-1.2	-1.0	-0.8	-0.8	-0.8
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current transfer balance	11.8	10.4	10.3	12.3	12.9	12.0	12.4	12.4	11.8	11.3	11.0
Remittances	7.6	7.1	7.1	8.1	7.5	7.9	8.3	8.4	8.0	7.5	7.3
Budget transfers	1.5	0.9	0.9	1.0	0.4	0.9	0.7	0.6	0.5	0.5	0.5
Other transfers	2.8	2.4	2.3	3.2	5.0	3.1	3.4	3.4	3.3	3.2	3.2
Capital and Financial Account Balance	-10.5	-12.1	-9.2	-10.9	-12.2	-5.1	-10.1	-11.2	-10.5	-10.1	-9.7
Capital account balance	-0.2	-0.3	-0.5	-0.6	-0.4	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3
Financial account balance	-10.7	-12.5	-9.6	-11.5	-12.5	-5.4	-10.5	-11.5	-10.9	-10.4	-10.0
Foreign direct investment, net (inflows: "-")	-1.4	-2.3	-3.9	-1.3	-1.7	-0.5	-1.5	-1.5	-1.6	-1.8	-1.8
Portfolio investment and derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-9.3	-10.2	-5.7	-10.2	-10.7	-4.9	-9.0	-10.0	-9.3	-8.6	-8.3
Loans	-1.7	-1.0	-1.0	-2.0	-1.1	-1.0	0.1	-0.3	-0.1	0.0	-0.2
General government, net	-1.2	0.1	0.0	-1.1	-0.4	-0.8	0.5	0.6	0.7	0.8	0.6
Private sector, net	-0.5	-1.1	-1.0	-0.9	-0.7	-0.2	-0.4	-0.9	-0.8	-0.8	-0.7
Other capital flows, net	-7.5	-9.3	-4.8	-8.2	-9.7	-3.9	-9.1	-9.7	-9.2	-8.6	-8.1
Errors and omissions	0.8	0.4	0.1	-0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	5.5	2.0	0.0	2.3	0.8	-7.8	-1.8	0.5	0.9	1.0	1.1
Financing	-4.4	-2.0	0.0	-2.3	-0.8	7.8	1.8	-0.5	-0.9	-1.0	-1.1
Gross international reserves (increase: "+")	5.5	2.1	0.5	5.5	1.5	-4.4	0.3	3.4	0.9	0.6	0.7
Use of Fund credit, net	-0.5	-0.5	-0.3	1.6	0.2	1.4	1.0	2.2	0.1	-0.4	-0.5
Monetary authorities	-0.5	-0.4	-0.3	-0.4	-0.2	-0.1	-0.1	1.9	0.3	-0.2	-0.2
Purchases	0.2	0.2	0.2	0.1	0.0	0.0	0.0	2.0	0.4	0.0	0.0
Repurchases	0.6	0.5	0.5	0.4	0.2	0.1	0.1	0.1	0.1	0.2	0.2
General government	0.0	-0.1	0.0	2.0	0.5	1.5	1.1	0.4	-0.2	-0.2	-0.3
Purchases	0.3	0.1	0.2	2.2	0.6	1.5	1.5	1.0	0.2	0.0	0.0
Repurchases	0.3	0.2	0.2	0.2	0.1	0.0	0.3	0.6	0.4	0.2	0.3
Exceptional financing	1.5	0.6	0.8	1.6	0.5	2.1	1.1	0.6	0.0	0.0	0.0
o/w											
European Commission	0.4	0.0	0.8	0.9	0.4	0.3	0.3	0.4	0.0	0.0	0.0
World Bank	0.1	0.5	0.0	0.5	0.0	1.1	0.7	0.3	0.0	0.0	0.0
Other official bilateral donors	1.1	0.0	0.0	0.2	0.1	0.7	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Gross official reserves (millions of U.S. dollars) 2/	2,803	2,995	3,060	3,784	3,902	3,300	3,338	3,826	3,973	4,071	4,189
Months of imports of good and services	5.3	5.4	6.2	5.7	5.5	4.5	4.3	4.6	4.5	4.3	4.5
Percent of short term debt and CA deficit	85.5	83.2	89.3	87.5	80.5	68.2	66.2	71.9	68.6	72.2	99.2
Pct of short-term debt at remaining maturity	135.7	120.4	121.4	138.6	127.7	103.3	95.1	100.2	93.1	99.2	99.2
Pct of the IMF composite measure (floating) 3/	165.8	159.3	159.8	179.8	173.6	141.9	135.4	144.7	141.9	141.4	141.6
Current account balance	-5.7	-10.6	-9.3	-7.9	-11.7	-13.0	-12.0	-10.6	-9.7	-9.1	-8.5
Goods and services trade balance	-23.3	-25.6	-24.7	-23.5	-27.3	-29.9	-29.9	-28.9	-27.3	-26.0	-25.1
Export of goods and services	32.3	30.1	30.6	27.9	30.7	31.7	34.2	35.8	36.2	36.9	38.0
Import of goods and services	55.6	55.8	55.3	51.5	58.0	61.6	64.2	64.7	63.6	62.9	63.1
Foreign direct investment balance	1.4	2.3	3.9	1.3	1.7	0.5	1.5	1.5	1.6	1.8	1.8
(Percent change of amounts in U.S.dollars, unless otherwise indicated)											
Exports of goods	19.8	5.8	7.2	-8.2	31.8	0.0	7.0	8.0	8.3	8.5	10.5
Exports of services	17.6	17.9	4.5	-17.2	27.9	11.4	8.1	11.6	11.2	10.8	10.8
Imports of goods	21.7	19.1	3.0	-7.2	34.0	5.9	2.8	4.4	5.4	5.5	6.9
Imports of services	12.3	18.2	6.4	-24.9	31.5	15.2	8.5	11.6	11.2	10.8	10.8
Remittances and compensation	15.4	14.6	14.4	14.5	13.1	14.3	15.1	15.3	14.7	14.0	13.7
Remittances	6.9	11.3	4.5	10.3	9.5	6.5	4.5	5.9	3.0	1.0	4.5
Compensation of employees	18.8	12.1	2.8	-16.8	4.5	15.5	6.0	6.0	5.0	5.0	6.0
Debt service (pct of exports of goods and services)	12.6	14.7	13.4	15.9	10.8	11.7	12.5	13.0	12.9	13.9	12.6

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

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

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

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

Table 3a. Moldova: General Government Budget, 2017–2027

(Millions of Moldovan lei, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and Grants	53,379	57,996	62,949	62,655	77,373	83,993	94,038	105,887	119,860	134,271	148,595
Revenues	52,371	57,609	61,347	62,006	74,926	81,449	91,686	104,433	118,095	132,316	146,538
Tax revenues	49,990	54,816	58,458	58,987	71,228	77,954	88,285	100,668	113,941	127,749	141,513
Personal income	3,649	3,982	3,970	4,166	5,134	5,837	6,634	7,470	8,306	9,201	10,192
Corporate income	4,074	5,357	5,365	5,123	6,009	6,780	7,438	8,301	9,229	10,224	11,326
Property tax	546	564	580	582	750	756	776	905	1,007	1,115	1,235
VAT	16,870	18,616	20,183	19,775	25,509	27,069	31,430	36,892	42,213	48,030	53,205
Excises	5,950	5,683	6,222	6,469	7,608	8,234	9,091	10,816	12,843	14,485	16,046
Foreign trade	1,591	1,666	1,798	1,739	2,253	2,465	2,801	3,163	3,517	3,896	4,316
Other	1,796	1,793	1,935	1,898	2,125	2,144	2,259	2,521	2,803	3,105	3,440
Social Fund contributions	11,866	13,038	13,636	14,296	16,224	18,490	20,832	22,832	25,386	28,123	31,153
Health Fund contributions	3,648	4,118	4,768	4,940	5,615	6,180	7,024	7,769	8,638	9,569	10,600
Non-tax revenues	2,381	2,793	2,889	3,018	3,698	3,495	3,401	3,765	4,154	4,568	5,024
NBM profit transfers	0	0	0	218	407	133	0	0	0	0	0
Grants	1,009	387	1,603	650	2,447	2,544	2,352	1,453	1,765	1,955	2,057
Budget support	741	0	1,235	316	2,014	1,518	920	818	1,059	1,173	1,234
Project	268	387	368	334	434	1,026	1,432	635	706	782	823
Expenditure and Net Lending	54,524	59,609	65,972	73,275	83,714	103,774	109,057	122,079	134,617	148,706	163,252
Current expenditure	49,091	53,597	58,975	65,687	76,151	93,903	98,796	107,965	118,470	130,914	143,482
Wages	12,506	13,733	15,649	17,214	18,776	21,485	23,261	26,425	29,645	32,841	36,379
Goods and services	10,587	11,209	12,080	13,276	16,683	20,821	20,950	23,837	26,084	28,758	31,299
Interest payments	1,959	1,526	1,641	1,707	1,941	2,973	4,582	3,557	3,689	4,358	5,017
Domestic	1,581	1,129	1,213	1,333	1,550	2,328	3,934	3,113	3,274	3,962	4,628
Foreign	378	397	428	374	391	645	648	444	415	396	390
Transfers	20,383	23,411	24,616	28,848	33,467	41,290	44,467	47,221	50,788	55,965	60,971
Transfers to economy 1/	2,417	3,462	2,316	3,840	5,280	6,224	4,880	5,446	6,055	6,708	7,364
Transfers to households	17,966	19,949	22,301	25,008	28,187	35,066	39,587	41,775	44,733	49,257	53,607
Other current expenditure	3,655	3,718	4,989	4,642	5,285	7,334	5,536	6,925	8,264	8,992	9,816
Capital expenditure	5,434	6,012	6,997	7,588	7,563	9,871	10,261	14,114	16,148	17,792	19,770
One-off revenue and expenditure items 2/	0	0	0	0	0	0	0	0	0	0	0
Overall Balance (incl. one-off items)	-1,145	-1,613	-3,023	-10,620	-6,341	-19,781	-15,019	-16,192	-14,758	-14,434	-14,657
Overall balance (excl. one-off items)	-1,145	-1,613	-3,023	-10,620	-6,341	-19,781	-15,019	-16,192	-14,758	-14,434	-14,657
Primary balance (excl. one-off items)	807	-293	-1,595	-9,469	-4,849	-17,507	-13,254	-13,531	-12,026	-11,102	-10,586
Financing (excl. one-off items)	-1,432	380	2,125	3,923	-228	11,134	7,677	10,906	14,030	14,434	14,657
Budget financing	-2,355	-1,157	693	856	-3,082	4,513	3,227	8,454	11,255	10,616	10,854
Central government	-1,870	-495	775	439	-2,808	4,573	3,073	8,454	11,255	10,616	10,854
Net domestic	-581	1,094	1,701	1,845	-4,630	4,823	5,727	12,791	15,022	14,081	15,080
Net foreign (excl. project loans)	-1,379	-2,288	-2,123	-1,232	1,685	-749	-2,904	-4,487	-3,917	-3,615	-4,376
Privatization	153	140	85	151	138	500	250	150	150	150	150
Others	-63	559	1,112	-325	0	0	0	0	0	0	0
Local governments	-285	-136	211	0	-227	-305	154	0	0	0	0
Privatization	6	1	2	0	0	0	0	0	0	0	0
Social Fund	-204	-364	-146	0	-60	0	0	0	0	0	0
Health Fund	4	-163	-147	417	12	245	0	0	0	0	0
Net project loans	924	1,538	1,613	3,067	2,855	6,620	4,449	2,452	2,774	3,818	3,803
Of which: Onlending (through commercial banks)	-280	-105	-113	-649	-651	-4,834	-7,394	-117	-130	-144	-160
Financing Gap	2,577	1,233	898	6,696	6,568	8,648	7,343	5,287	728	0	0
World Bank	100	1,012	24	930	0	2,970	2,150	916	0	0	0
IMF	479	221	483	4,393	1,440	4,124	4,300	3,276	751	0	0
Others 3/	1,998	0	391	1,373	5,128	1,553	893	1,095	-23	0	0
Financing for one-off items											
Government securities issued	0	0	0	0	0	0	0	0	0	0	0
					(Millions of Moldovan lei)						
Memorandum Items:											
Public and publicly guaranteed debt	58,049	57,550	57,989	67,387	78,575	105,052	120,765	141,727	157,137	169,952	182,607

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

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

2/ Includes banking sector resolution costs in 2016.

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

Table 3b. Moldova: General Government Budget, 2017–2027
(Percent of GDP, unless otherwise stated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenues and Grants	29.8	30.1	29.9	31.4	32.0	30.7	31.8	32.1	32.7	33.0	33.0
Revenues	29.3	29.9	29.2	31.0	31.0	29.8	31.0	31.6	32.2	32.6	32.5
Tax revenues	27.9	28.5	27.8	29.5	29.4	28.5	29.9	30.5	31.1	31.4	31.4
Personal income	2.0	2.1	1.9	2.1	2.1	2.1	2.2	2.3	2.3	2.3	2.3
Corporate income	2.3	2.8	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Property tax	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
VAT	9.4	9.7	9.6	9.9	10.5	9.9	10.6	11.2	11.5	11.8	11.8
Excises	3.3	3.0	3.0	3.2	3.1	3.0	3.1	3.3	3.5	3.6	3.6
Foreign trade	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Other	1.0	0.9	0.9	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Social Fund contributions	6.6	6.8	6.5	7.2	6.7	6.8	7.0	6.9	6.9	6.9	6.9
Health Fund contributions	2.0	2.1	2.3	2.5	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Non-tax revenues	1.3	1.5	1.4	1.5	1.5	1.3	1.2	1.1	1.1	1.1	1.1
NBM profit transfers	0.0	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.6	0.2	0.8	0.3	1.0	0.9	0.8	0.4	0.5	0.5	0.5
Budget support	0.4	0.0	0.6	0.2	0.8	0.6	0.3	0.2	0.3	0.3	0.3
Project	0.1	0.2	0.2	0.2	0.2	0.4	0.5	0.2	0.2	0.2	0.2
Expenditure and Net Lending	30.5	31.0	31.4	36.7	34.6	37.9	36.9	37.0	36.7	36.6	36.3
Current expenditure	27.4	27.8	28.0	32.9	31.5	34.3	33.4	32.7	32.3	32.2	31.9
Wages	7.0	7.1	7.4	8.6	7.8	7.9	7.9	8.0	8.1	8.1	8.1
Goods and services	5.9	5.8	5.7	6.6	6.9	7.6	7.1	7.2	7.1	7.1	7.0
Interest payments	1.1	0.8	0.8	0.9	0.8	1.1	1.5	1.1	1.0	1.1	1.1
Domestic	0.9	0.6	0.6	0.7	0.6	0.9	1.3	0.9	0.9	1.0	1.0
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Transfers	11.4	12.2	11.7	14.4	13.8	15.1	15.0	14.3	13.8	13.8	13.5
Transfers to economy 1/	1.4	1.8	1.1	1.9	2.2	2.3	1.7	1.7	1.7	1.7	1.6
Transfers to households	10.0	10.4	10.6	12.5	11.7	12.8	13.4	12.7	12.2	12.1	11.9
Other current expenditure	2.0	1.9	2.4	2.3	2.2	2.7	1.9	2.1	2.3	2.2	2.2
Capital expenditure	3.0	3.1	3.3	3.8	3.1	3.6	3.5	4.3	4.4	4.4	4.4
One-off revenue and expenditure items 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (incl. one-off items)	-0.6	-0.8	-1.4	-5.3	-2.6	-7.2	-5.1	-4.9	-4.0	-3.6	-3.3
Overall balance (excl. one-off items)	-0.6	-0.8	-1.4	-5.3	-2.6	-7.2	-5.1	-4.9	-4.0	-3.6	-3.3
Primary balance (excl. one-off items)	0.5	-0.2	-0.8	-4.7	-2.0	-6.4	-4.5	-4.1	-3.3	-2.7	-2.4
Financing (excl. one-off items)	-0.8	0.2	1.0	2.0	-0.1	4.1	2.6	3.3	3.8	3.6	3.3
Budget financing	-1.3	-0.6	0.3	0.4	-1.3	1.7	1.1	2.6	3.1	2.6	2.4
Central government	-1.0	-0.3	0.4	0.2	-1.2	1.7	1.0	2.6	3.1	2.6	2.4
Net domestic	-0.3	0.6	0.8	0.9	-1.9	1.8	1.9	3.9	4.1	3.5	3.3
Net foreign (excl. project loans)	-0.8	-1.2	-1.0	-0.6	0.7	-0.3	-1.0	-1.4	-1.1	-0.9	-1.0
Privatization	0.1	0.1	0.0	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Others	0.0	0.3	0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local governments	-0.2	-0.1	0.1	0.0	-0.1	-0.1	0.1	0.0	0.0	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Fund	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health Fund	0.0	-0.1	-0.1	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Net project loans	0.5	0.8	0.8	1.5	1.2	2.4	1.5	0.7	0.8	0.9	0.8
Of which: Onlending (through commercial banks)	-0.2	-0.1	-0.1	-0.3	-0.3	-1.8	-2.5	0.0	0.0	0.0	0.0
Financing Gap	1.4	0.6	0.4	3.4	2.7	3.2	2.5	1.6	0.2	0.0	0.0
World Bank	0.1	0.5	0.0	0.5	0.0	1.1	0.7	0.3	0.0	0.0	0.0
IMF	0.3	0.1	0.2	2.2	0.6	1.5	1.5	1.0	0.2	0.0	0.0
Others 3/	1.1	0.0	0.2	0.7	2.1	0.6	0.3	0.3	0.0	0.0	0.0
Financing for one-off items											
Government securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Public and publicly guaranteed debt	32.5	29.9	27.6	33.7	32.5	38.4	40.8	43.0	42.8	41.8	40.6

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

1/ As of 2016, capital transfers are excluded from transfers to economy and recorded under capital expenditure.
2/ Includes banking sector resolution costs in 2016.
3/ Includes SDR allocation in 2021 (about US$236 million).

Table 4. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2017–2022

(Millions of Moldovan lei, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022
					Est.	Proj.
National Bank of Moldova						
Net foreign assets 1/	42,153	45,700	47,526	62,701	67,592	68,573
NFA (convertible)	43,045	46,855	48,513	62,700	67,598	68,567
Gross reserves	47,936	51,345	52,654	65,132	69,240	70,209
Reserve liabilities	4,891	4,490	4,141	2,433	1,642	1,642
Net domestic assets	-5,156	-2,143	-675	-7,062	-10,044	-9,884
Net claims on general government	7,964	7,956	9,347	4,758	192	5,688
Credit to banks	-9,217	-6,299	-5,403	-6,383	-3,704	-8,417
Other items (net)	-3,903	-3,800	-4,619	-5,436	-6,533	-7,155
Reserve money	36,997	43,557	46,851	55,639	57,548	58,689
Currency in circulation	19,053	21,077	22,953	29,819	31,699	31,399
Banks' reserves	17,240	22,315	23,860	25,808	25,811	27,290
Required reserves	16,266	18,656	20,518	23,010	23,247	24,473
Other reserves	974	3,659	3,342	2,798	2,564	2,817
Monetary Survey						
Net foreign assets	67,877	71,780	74,503	89,983	97,303	102,599
NFA (convertible)	61,871	65,793	68,481	82,939	90,658	95,621
Of which: commercial banks	18,826	18,938	19,968	20,240	23,061	27,054
Foreign assets of commercial banks	23,237	22,641	23,342	23,788	27,094	31,795
Foreign liabilities of commercial banks	-4,411	-3,703	-3,374	-3,548	-4,034	-4,741
NFA (non-convertible)	6,006	5,987	6,022	7,044	6,645	6,977
Net domestic assets	9,233	11,378	15,448	17,641	22,457	17,056
Net claims on general government	11,455	12,353	13,438	14,142	11,264	9,660
Credit to economy	38,101	39,656	44,207	48,744	58,996	55,199
Moldovan lei	21,657	22,779	27,302	31,139	40,713	35,992
Foreign exchange	16,445	16,878	16,905	17,605	18,283	19,207
in U.S. dollars	962	985	982	1,023	1,030	917
Other items (net)	-40,323	-40,631	-42,198	-45,245	-47,803	-47,803
Broad money (M3)	77,110	83,159	89,951	107,625	119,760	119,655
Broad money (M2: excluding FCD)	53,043	58,334	63,137	75,891	83,080	82,582
Currency in circulation	19,053	21,077	22,953	29,819	31,699	31,399
Total deposits	58,003	62,081	66,997	77,806	88,062	88,256
Domestic currency deposits	33,937	37,257	40,184	46,072	51,382	51,183
Foreign currency deposits (FCD)	24,067	24,824	26,814	31,734	36,680	37,073
in U.S. dollars	1,407	1,448	1,558	1,843	2,067	1,771
Memorandum Items:						
Reserve money growth (percent change; annual)	11.2	17.7	7.6	18.8	3.4	2.0
Broad money growth (percent change; annual)	9.4	7.8	8.2	19.6	11.3	-0.1
Credit to economy (percent change, annual)	-3.4	4.1	11.5	10.3	21.0	-6.4
in lei	0.0	5.2	19.9	14.1	30.7	-11.6
in foreign exchange ($ equivalent)	8.0	2.4	-0.2	4.1	0.7	-11.0
Gross international reserves (millions of U.S. dollars)	2,803	2,995	3,060	3,784	3,902	3,353
Percent of domestic-currency broad money	90	88	83	86	83	85
Broad money multiplier	2.1	1.9	1.9	1.9	2.1	2.0

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

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

Table 5. Moldova: Financial Soundness Indicators, 2014–2021

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

	2014	2015	2016	2017	2018	2019	2020				2021			
	Dec	Dec	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Size														
Number of banks	14	11	11	11	11	11	11	11	11	11	11	11	11	11
Total bank assets (billions of lei)	97.5	69.1	72.9	79.5	83.2	90.7	92.5	94.7	98.1	103.8	104.5	109.7	113.8	117.2
Total bank assets (percent of GDP)	87.0	56.7	54.2	52.9	43.8	43.1	43.6	46.1	49.3	52.0	51.0	50.1	48.4	48.1
Capital Adequacy														
Capital adequacy ratio	13.2	26.2	30.1	31.0	26.5	24.8	25.0	26.8	27.3	27.3	26.6	26.8	25.9	25.9
Liquidity														
Liquid assets (billions of lei)	21.1	28.7	35.9	44.1	45.4	45.9	46.5	48.6	48.7	52.4	52.7	54.8	55.3	57.6
Total deposits (billions of lei)	65.5	50.2	54.8	59.9	63.5	68.4	70.1	71.8	74.4	79.6	79.1	82.9	86.5	90.1
Liquidity ratio (liquid assets in percent of total deposits)	32.2	57.2	65.5	73.7	71.6	67.1	66.4	67.8	65.5	65.8	66.6	66.0	64.0	63.9
Liquid assets in total assets	21.6	41.5	49.2	55.5	54.6	50.6	50.3	51.4	49.6	50.6	50.4	49.9	48.6	48.5
Asset Quality														
Gross loans (billions of lei)	40.8	38.2	34.8	33.5	35.5	40.4	42.0	41.5	43.5	45.6	46.6	49.9	53.4	56.4
Nonperforming loans (billions of lei)	4.8	3.8	5.7	6.2	4.4	3.4	3.6	3.6	3.7	3.4	3.4	3.7	3.6	3.5
Nonperforming loans as a share of total loans	11.7	9.9	16.4	18.4	12.5	8.5	8.5	8.7	8.6	7.4	7.2	7.5	6.8	6.1
Provisions to non-performing loans	88.4	85.5	81.8	80.6	86.6	93.7	93.3	94.9	95.3	101.0	101.4	94.9	99.1	104.2
Profitability														
Return on equity	6.1	12.8	12.0	11.1	11.6	14.6	10.4	7.8	9.1	8.7	9.3	10.2	12.0	12.4
Return on assets	0.9	2.1	2.0	1.8	1.9	2.5	1.8	1.4	1.6	1.5	1.6	1.7	2.0	2.0
Foreign Currency Assets and Liabilities														
Foreign currency denominated liabilities in total liabilities	49.5	52.8	46.8	44.1	42.1	42.1	45.3	45.1	43.9	42.9	42.5	42.1	42.8	42.8
Foreign currency denominated assets in total assests	47.0	42.5	38.9	36.8	34.7	34.4	35.1	35.2	34.4	33.7	33.1	32.9	34.1	34.6
Foreign currency deposits in total deposits	52.1	52.5	46.5	42.8	41.1	41.0	44.7	44.2	42.9	41.8	41.4	41.3	42.4	42.6
Foreign currency denominated loans in total loans	39.8	42.1	44.3	41.7	38.5	33.3	33.0	31.1	30.1	30.5	29.4	28.2	26.8	26.2

Source: National Bank of Moldova.

Table 6. External Finance Requirements and Sources, 2016–2026

(Millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Est.			Proj.		
Gross Financing Requirement 1/	528	795	1545	1511	1296	1943	2203	2103	2077	2076	2131
of which: fiscal financing requirements	154	139	73	51	387	371	437	342	231	31	0
Identified Financing Sources	847	1132	1683	1431	1497	1843	1023	1771	2181	2158	2228
Change in Gross Reserves (increase = +)	531	531	236	60	637	206	-602	37	489	147	97
Financing Gap	212	193	98	141	437	306	578	370	385	64	0
Official Financing	212	193	98	141	437	306	578	370	385	64	0
Identified program financing	177	150	65	94	182	224	370	170	99	0	0
European Commission	47	36	0	93	104	215	121	70	59	0	0
World Bank	62	5	60	1	54	0	150	100	40	0	0
AFD	0	0	0	0	0	0	76	0	0	0	0
Other official donors	68	108	5	0	24	10	23	0	0	0	0
Fund Program	35	44	33	46	255	81	208	200	286	64	0
of which: budget support	24	26	13	28	249	81	208	200	143	32	0

Sources: Moldovan authorities and IMF staff projections.

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

Table 7. Moldova: Decomposition of Public Debt and Debt Service by Creditor, 2021–23 1/

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

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
		(Percent total debt)	*(Percent GDP)*				*(Percent GDP)*		
Total	4617.4	100.0	33.8	1938.4	1912.1	2007.6	14.2	13.7	13.5
External	2650.9	57.4	19.4	226.0	216.3	233.8	1.7	1.6	1.6
Multilateral creditors[2,3]	2532.1	54.8	18.5	154.4	182.1	224.6	1.1	1.3	1.5
IMF	832.0	18.0	6.1						
World Bank	813.5	17.6	5.9						
ADB/AfDB/IADB	0.0	0.0	0.0						
Other Multilaterals	886.6	19.2	6.5						
o/w: list largest two creditors	580.7	12.6	4.2						
EIB	422.2	9.1	3.1						
EBRD	158.5	3.4	1.2						
list of additional large creditors	0.0	0.0	0.0						
Bilateral Creditors[2]	118.8	2.6	0.9	60.5	34.2	9.2	0.4	0.2	0.1
Paris Club	111.8	2.4	0.8	23.7	28.3	9.2	0.2	0.2	0.1
o/w: list largest two creditors	68.8	1.5	0.5						
JICA	49.6	1.1	0.4						
Government of Russia	19.2	0.4	0.1						
list of additional large creditors	0.0	0.0	0.0						
Non-Paris Club	7.0	0.2	0.1	36.8	5.9	0.0	0.3	0.0	0.0
o/w: list largest two creditors	6.5	0.1	0.0						
Government of Romania	5.7	0.1	0.0						
Novo Gaming M Technologies GMBH	0.9	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Domestic	1966.5	42.6	14.4	1712.4	1695.7	1773.8	12.5	12.2	11.9
Held by residents, total	1966.4	42.6	14.4	1712.4	1695.7	1773.8	12.5	12.2	11.9
Held by non-residents, total	0.1	0.0	0.0						
T-Bills	1024.4	22.2	7.5	1424.5	1561.0	1544.0	10.4	11.2	10.4
Bonds	857.4	18.6	6.3	212.2	102.3	207.0	1.6	0.7	1.4
Loans*	84.6	1.8	0.6	75.6	32.4	22.8	0.6	0.2	0.2
Memo Items:	103.7								
Collateralized debt[4]	n/a	n/a	n/a						
o/w: Related	n/a	n/a	n/a						
o/w: Unrelated	0.0	n/a	n/a						
Contingent liabilities	103.7		0.8	0.0	0.5	0.5	0.0	0.0	0.0
o/w: Public guarantees	103.7		0.8	0.0	0.5	0.5	0.0	0.0	0.0
o/w: Other explicit contingent liabilities[5]	n/a	n/a	n/a						
Nominal GDP	13672.4			13672.4	13954.1	14911.7			

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

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

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

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).

Table 8. Moldova: Indicators of Fund Credit, 2020–2032 1/

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
		Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund Obligations Based on Existing Credit (millions of SDRs)													
Principal	53.4	35.3	14.4	41.6	76.5	57.0	40.9	38.6	33.1	30.2	17.2	10.2	0.0
Charges and interest	2.3	2.2	3.3	4.4	3.6	2.6	2.3	2.0	1.8	1.6	1.4	1.3	1.3
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)													
Principal	53.4	35.3	14.4	41.6	76.5	57.0	44.5	60.4	86.8	114.0	110.8	105.7	85.4
Charges and interest	2.3	2.4	3.9	7.2	10.0	10.4	9.6	9.0	7.6	5.6	4.6	3.6	2.7
Total Obligations Based on Existing and Prospective Credit													
Millions of SDRs	55.6	37.7	18.3	48.8	86.5	67.4	54.0	69.4	94.4	119.7	115.3	109.3	88.1
Millions of U.S. dollars	76.8	52.2	25.5	68.1	121.1	94.7	75.9	97.4	132.6	168.1	162.0	153.5	123.7
Percent of exports of goods and services	2.4	1.2	0.6	1.4	2.3	1.7	1.2	1.5	1.9	2.2	2.0	1.8	1.3
Percent of debt service 2/	32.3	26.2	10.6	29.1	41.8	40.0	33.6	37.5	40.9	42.8	40.6	39.7	36.8
Percent of GDP	0.7	0.4	0.2	0.5	0.8	0.6	0.5	0.5	0.7	0.8	0.7	0.6	0.5
Percent of gross international reserves	2.0	1.3	0.8	2.0	3.2	2.4	1.9	2.3	3.1	3.8	3.6	3.3	2.6
Percent of quota	32.2	21.8	10.6	28.3	50.1	39.1	31.3	40.2	54.7	69.4	66.9	63.3	51.1
Outstanding Fund Credit Based on Existing and Prospective Credit													
Millions of SDRs	346.7	368.5	494.8	595.1	719.7	707.3	662.8	602.4	515.6	401.6	290.8	185.2	99.8
Millions of U.S. dollars	478.8	511.4	688.9	830.7	1,007.5	993.7	931.2	846.4	724.4	564.2	408.5	260.1	140.1
Percent of exports of goods and services	14.9	12.2	15.7	17.6	19.5	17.6	15.1	12.7	10.2	7.4	5.0	3.0	1.5
Percent of debt service 2/	201.1	256.8	285.0	354.9	348.1	419.8	411.7	326.0	223.6	143.5	102.4	67.2	41.6
Percent of GDP	4.2	3.7	5.0	6.0	7.0	6.4	5.5	4.7	3.8	2.7	1.8	1.1	0.6
Percent of gross international reserves	12.7	13.1	20.9	24.9	26.3	25.0	22.9	20.2	16.8	12.7	9.0	5.6	2.9
Percent of quota	201.0	213.6	286.8	345.0	417.2	410.0	384.2	349.2	298.9	232.8	168.6	107.3	57.8
Net Use of Fund Credit (millions of SDRs)	133.5	21.9	135.1	100.3	124.7	-12.5	-44.5	-60.4	-86.8	-114.0	-110.8	-105.7	-85.4
Disbursements and purchases	186.9	57.1	149.5	141.9	201.2	44.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	53.4	35.3	14.4	41.6	76.5	57.0	44.5	60.4	86.8	114.0	110.8	105.7	85.4
Memorandum Items:													
Exports of goods and services (millions of U.S. dollars)	3,222	4,197	4,383	4,710	5,158	5,649	6,185	6,642	7,110	7,610	8,146	8,719	9,333
Debt service (millions of U.S. dollars) 2/	238.1	199.1	241.7	234.1	289.4	236.7	226.2	259.63	324.0	393.2	399.0	386.9	336.6
Nominal GDP (millions of U.S. dollars) 2/	11,530	13,672	13,811	13,752	14,412	15,590	16,779	18,020	19,288	20,646	22,099	23,654	25,319
Gross International Reserves (millions of U.S. dollars)	3,784	3,902	3,300	3,338	3,826	3,973	4,071	4,189	4,312	4,435	4,558	4,682	4,806
Average exchange rate: SDR per U.S. dollars	0.72	0.72	0.72	0.72	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71
Quota (millions of SDRs)	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5

Sources: IMF staff estimates and projections.

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

Table 9. Moldova: Proposed Augmented Schedule of Reviews and Disbursements 1/

	Amount of Disbursement/Purchase			Percent of Quota			
Available on or after	Total	ECF	EFF	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	44,562,500	19,037,500	25,525,000	25.83%	11.04%	14.80%	Observance of end-December 2024 performance criteria, continuous performance criteria, and completion of seventh review
Total	594,262,500	198,087,500	396,175,000	344.50%	114.83%	229.67%	

Source: IMF staff estimates.

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

Annex I. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Conjunctural Risks				
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers.	**High**	**Short term**	**High** **Limited domestic financing.** Heightened uncertainty in the financial sector could dampen demand for government debt, raising the possibility of binding domestic borrowing constraints. Further tightening of financing constraints could result in lower rollover rates. **Acceleration of deposit withdrawals.** Panic-driven steady deposit withdrawals could intensify as a result of the further escalation of war in Ukraine. Confidence is degraded by heightened risk aversion and concerns over adverse spillovers of sanctions and other disruptions related to the war, triggering capital flight. **Accelerated refugee inflows.** An increased cost to accommodate the refugees and potentially social tensions, given the small size of the country and already fragile social fabric. **Increased inflation pressures domestically**, due to higher commodity prices and	• Limit expenditures to the extent that available fiscal cash buffers and external financing allow. • Ensure that the high-priority social spending is protected. • Tighten monetary policy through further increases in the policy rate. • Allow greater pass-through to the exchange rate. • If a crisis is imminent, the NBM will deploy its crisis toolkit as warranted. • Build contingency plans ready to be activated quickly (e.g. budget allocations that can be easily reoriented). • Ensure appropriate infrastructure in place to facilitate the transit of those refugees transiting through Moldova. • Closely monitor inflation.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
			worsening supply-demand imbalances, may pose difficult policy trade-offs.	• Further tighten monetary policy to address second-round effects.
Outbreaks of lethal and highly contagious Covid-19 variants. Rapidly increasing hospitalizations and deaths, due to low vaccination rates or caused by vaccine-resistant variants, force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress.	Medium	**Short to Medium Term**	High • Higher fiscal costs to (i) contain virus fallout and strengthen the health care system; (ii) support businesses facing distress (e.g. losses, curtailed activity); and (iii) protect affected households via social transfers (layoffs/ unemployment benefits). • The government may decide to adopt export restrictions/controls. • Mounting financing pressures due to potential loss of donor support. • Increased inflation pressures domestically, due to higher commodity prices and worsening supply-demand imbalances, may pose difficult policy trade-offs.	• Continue growth-friendly fiscal policy, strengthen efficiency of public spending, and reprioritize outlays. • Address structural bottlenecks through continued reforms to improve competitiveness and reduce trade costs. • Continue sound monitoring/ supervision of the financial system to promptly address any signs of market distress. • Refrain from resorting to any protectionist measures. • Maintain a flexible exchange rate regime. • Closely monitor inflation. • Further tighten monetary policy to address second-round effects.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Widespread social discontent and political instability. Social unrest fueled by increasing prices and shortages of essentials, rising inequality, inadequate healthcare, financial and social scars from the prolonged pandemic, and heavier household debt burdens amid rising interest rates trigger political instability, capital outflows, higher unemployment, and slower economic growth.	**High**	**Short to Medium Term**	**Medium** • Economic activity and supply disruptions are likely, as 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 general population and to economic agents, to ascertain 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.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises.	**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 to Moldova would force the country 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 significantly more expensive. This may necessitate temporary rationing. **Deterioration in food security.** Higher food prices and/or supply disruptions would hurt vulnerable consumers (particularly low-income households), and could also weigh on domestic demand through a reduction of purchasing power via inflation It could also aggravate domestic social tensions.	• Adjust local energy tariffs. • Allocate additional budget resources to targeted measures that shield most vulnerable segments of the population through transparent processes. • Implement measures to ration demand. • Extend support to the energy regulator to ensure energy sector security. • Closely monitor inflation. • Seek alternative foreign suppliers. • Allocate funds to increase domestic grains reserve. • Target fiscal support to segments of the population hit hardest by rising food prices. • Increase investments in agricultural productivity and agricultural infrastructure.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Feedback loops from corporate balance sheets and spillovers from non-banks to banks, resulting from to shocks to the energy and agricultural sectors as well as exposures to Russia, Ukraine and Belarus.	Medium	**Short term**	**High** • A significant worsening of debtor 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.
Structural Risks				
Geopolitical tensions and de-globalization. Intensified geopolitical tensions, security risks, conflicts, and wars cause economic and political disruptions, fragmentation of the international monetary system, production reshoring, a decline in global trade, and lower investor confidence.	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
Global information infrastructure failure. A disruption in global information systems (from an unintended error, natural disaster, or knock-on effects of widespread energy shortages) and/or cyber-attacks on critical infrastructure and institutions trigger financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	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.

Source of Risk	Relative Likelihood	Time Horizon	Impact if Realized	Policy Response
Governance weaknesses and 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.
Natural disasters related to climate change. Higher frequency of natural disasters cause severe economic damage and accelerate emigration. Severe events in large economies reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.	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 prices, and reduce export flows. • Lower potential growth.	• Diversify the economy and improve competitiveness via structural reforms. • Use monetary policy to address second round effects of commodity prices shocks.

Appendix I. Letter of Intent

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

Chişinău, April 26, 2022

Dear Ms. Georgieva:

1. Our country's economic ties and proximity to Ukraine, Russia, and Belarus exacerbates an already complex macroeconomic situation. The approval of a program supported by the IMF Extended Credit Facility and Extended Fund Facility (ECF–EFF) arrangements in December 2021 provided the much-needed impetus to our reform momentum amid energy price shocks and the COVID-19 pandemic. However, the beginning of the war in Ukraine has led to significant spillovers to our economy, reorienting our efforts to managing the influx of refugees, maintaining financial confidence, and safeguarding social cohesion. In the attached update to the Memorandum of Economic and Financial Policies (MEFP) from April 26, we reconfirm our firm commitment to sound policies and the objectives of the ECF–EFF program. Nonetheless, we need additional assistance because the onset of the war on our borders worsens the outlook for the economy.

2. The war in Ukraine has interrupted our positive economic performance trajectory. Moldova's economic performance in 2021 was solid, as growth surpassed expectations amid a lingering pandemic, surging inflation, and energy shocks. The central bank increased the policy rate to anchor inflation expectations. At the same time, the general government deficit narrowed significantly, inter alia, reflecting economic recovery and sizeable external support, and contributing to significant fiscal buffers and low public debt at the onset of the current crisis. We also accumulated significant external buffers with gross foreign exchange reserves closing off the year above five months of prospective imports providing a substantial cushion against exchange rate pressures and market volatility.

3. As a result of the war on our borders, we are witnessing a deterioration of our external and fiscal accounts, erosion of our reserve buffers, and buildup of financing needs. We have undertaken far-reaching measures and declared a state of emergency on February 24, promptly instituting measures to manage the flow of refugees. We scaled up humanitarian support leveraging our fiscal buffers as the first line of defense. We have utilized a portion of our foreign exchange reserves to counteract market pressures and limit excessive exchange rate volatility. However, we expect the economy to stagnate and have identified additional balance of payments financing needs over 2022–23, to be covered with IMF and donor' assistance.

4. We have strived to keep the program on track despite a challenging context. We met three out of the four structural benchmarks for March timely, relating to publishing a report on the execution of investment projects, requiring SOEs to submit standardized financial statements, and

completing a solvency assessment for insurance companies. However, extended stakeholders' consultations implied the Law on Prosecution Services was approved with a short delay in April. We comfortably met the indicative fiscal target for end-March. Still, the floor on net international reserves was narrowly breached due to much needed support to the markets to preserve financial stability. While surging inflation has triggered the Inflation Consultation Clause, we believe external factors, including energy and food supply shocks, remain the key drivers and expect inflation to revert to its band in 2023. We reiterate our strong commitment to retain the contours and overarching objectives of our program. However, to support our efforts considering the challenging external environment, we request an augmentation in the amount of SDR 194.26 million (112.6 percent of quota, of which SDR 64.79 million under the ECF and SDR 129.47 million under the EFF), an approval of an immediate disbursement/purchase in the amount of SDR 108.15 million (62.70 percent of quota, of which SDR 64.75 million under the ECF and 43.40 million under the EFF), rephasing to allow more frequent monitoring of the highly volatile landscape, as well as modifications of end-June performance criteria and the setting of the new quantitative program criteria.

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

Sincerely yours,

/s/
Natalia Gavrilița
Prime Minister

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

/s/
Octavian Armașu
Governor
National Bank of Moldova

/s/
Dumitru Budianschi
Minister of Finance

/s/
Sergiu Gaibu
Minister of Economy

Attachments: Memorandum of Economic and Financial Policies (MEFP)
Consultation with the IMF Executive Board on the Missed Inflation Target Under the ICC
Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

I. Macroeconomic Developments and Outlook

1. **The war in Ukraine and international sanctions on Russia and Belarus worsened an already complex economic and social landscape.** Since fall 2021, high and volatile gas prices have complicated the policy environment amid a lingering pandemic. Additionally, the war has resulted in significant spillovers to the economy, with a cumulative influx of refugees at about 15 percent of the population. In this complex context, we are exhausting our fiscal buffers as the first line of defense to bridge the humanitarian and energy security needs. Foreign exchange market pressures have come to the fore necessitating central bank interventions to over 10 percent of foreign exchange (FX) reserves. The current account deficit continues to widen due to a significant trade exposure to Russia and Ukraine (about 22 percent and 12 percent of total imports and exports of goods and services, respectively) and high international commodity prices. Confidence effects weigh on banks' liquidity and willingness to invest in government securities, with the resulting negative impact on private consumption and investment.

2. **The escalation of shocks generates significant financing needs and challenges social cohesion.** We project a balance-of-payment (BOP) financing requirement of US$1.7 billion in 2022–24—largely on account of worsening current account balance due to lower growth in our trading partners triggered by the war and associated sanctions hurting exports of goods and services—to be financed with an ECF-EFF augmentation and external assistance. We expect to use our FX reserves to tame excessive exchange rate volatility and secure external financing to bolster our external buffers. Funding our urgent energy, humanitarian, and developmental needs implies greater reliance on external financing from the IMF (increasing total access under the ECF/EFF by SDR 194.26 million to SDR 594.26 million), the World Bank (US$290 million), the European Union (EUR million in grants and loans), and the Agence Française de Développement (EUR 65 million). A EUR 300 million credit line from the EBRD, earmarked for gas purchases from the spot market, would also help mitigate energy security risks.

3. **Moldova entered the crisis with strong buffers.**

- *Growth.* The economy posted an impressive 13.9 percent growth in 2021, notwithstanding a lingering pandemic and energy crisis. With improved mobility, domestic demand rebounded strongly mainly on account of robust private consumption, supported by strong remittances and robust growth in wages and consumer credit.

- *Inflation.* CPI inflation increased steadily to 13.9 percent in December 2021, driven by surging energy, commodity, and food prices on global markets, as well as accelerating core inflation on account of a recovery in domestic demand.

- *Fiscal position.* The general government deficit narrowed to 2.6 percent of GDP in 2021 compared to the approved 6.0 percent of GDP under the program. Revenue and grants overperformed reflecting the solid economic recovery and sizeable external support, including from the IMF and the EU. Despite prioritizing later in the year through a supplementary budget energy subsidies, minimum pensions, unemployment and health sector support, spending was modest, reflecting large under-execution and low absorption rates. Subsequently, government cash buffers increased to about 4.9 percent of GDP while public debt reached 33.8 percent of GDP.

- *External*. While the ongoing recovery and high commodity prices have worsened Moldova's external position, significant international reserves mitigate external vulnerabilities. The current account deficit widened to 11.7 percent of GDP in 2021 while gross foreign exchange reserves closed off the year at US$3.9 billion (5.5 months of prospective imports of goods and services), providing substantial cushion against exchange rate pressures and market uncertainty.

- *Monetary and financial policies*. Beginning July 2021, the National Bank of Moldova (NBM) shifted to a tightening cycle and hiked the base rate by 600 basis points on account of a worsening inflation outlook. The interest corridor was narrowed by 1 percentage point to incentivize savings. At early stages of the pandemic, the NBM provided temporary forbearance for loans subject to payment deferments, while the National Commission for Financial Markets (NCFM) issued guidance to lower effective interest rates and institute loan payments deferrals for non-bank financial institutions. As of today, all these temporary measures have been fully phased out.

4. However, the confluence of the war in Ukraine, rising energy prices, and lingering pandemic will significantly weaken near-term economic prospects. The economy is expected to stagnate in 2022, with growth projected at 0.3 percent in 2022 compared to the pre-war forecast of 4.5 percent. Shored by higher food and energy prices, inflation is projected to average 22 percent in 2022, imposing a difficult tradeoff for the NBM to strike the appropriate balance between monetary tightening and supporting economic recovery. We expect the general government deficit to reach 7.2 percent of GDP in 2022 compared to 6 percent of GDP envisaged in the approved budget. The additional fiscal impulse and disruptions in trade would lead to a further widening of the current account deficit to 13 percent of GDP with FX reserves dropping to US$3.3 billion or 4.5 months of prospective imports.

5. Adverse risks to the outlook remain significant. A sharper-than-anticipated increase in energy prices or disruptions in energy supply could impair public and private balance sheets. Uncertainty surrounding energy security due to imminent electricity contract renewal or limited progress in the audit for Moldovagaz could disrupt supplies and exert sizeable fiscal costs. Escalation of the war in Ukraine could hurt confidence, exert pressure on the Moldovan lei, undermine domestic securities markets, and culminate into system-wide deposit runs. Our first line of defense against these considerable risks is our steadfast implementation of the reforms. Additional resources from the IMF, other multilateral and bilateral partners, and donors should help anchor confidence in the face of negative shocks.

6. Our commitment to the program remains strong despite the challenging environment. Since the approval of the program in December, we have maintained continuous engagement with the Fund on policy developments on the ground. Our structural reform agenda is progressing apace, with all end-March structural benchmarks implemented. Specifically, we were able to complete the solvency assessment for insurance companies to support the migration to Solvency II framework. We have successfully issued guidelines to all central government SOEs to submit standardized quarterly financial statements for 2019–2021 by end-April. We have prepared a draft report on the execution of investment projects undertaken by extrabudgetary funds in 2021 and have successfully strengthened the law on prosecution, in consultation with the IMF and other stakeholders.

II. Policy Framework

7. The government's economic policies maintain focus on the overarching objectives of creating the conditions for sustainable and inclusive long-term growth. We have not lost sight of our program goals of sustaining the economic recovery, launching an ambitious governance and institutional reforms agenda, and addressing pressing developmental needs. Despite the current crisis, the strategy, to which we committed at the onset of the program, remains our policy blueprint. We reaffirm our program objectives, while pursuing a realistic timeframe to reach them. Once the crisis dissipates, our efforts will be redirected towards a set of macro-critical policies and ambitious structural reforms to bolster the rule of law, reduce corruption, and strengthen fiscal and financial governance, facilitate external financing, and create a solid foundation for strong and inclusive growth.

A. Fiscal Policy

8. Our fiscal policy aims at mounting a response to the compounding shocks of war in Ukraine, energy insecurity, high inflation, and persistent pandemic while taking steps to address development goals.

- We had initially allocated in the approved budget for 2022, among other things, support for gas supplies and compensation for households (0.7 percent of GDP), unemployment schemes and agricultural subsidies (0.4 percent of GDP), and health sector (0.3 percent of GDP), including a significant allocation to the capital budget (3.7 percent of GDP). However, recent adverse developments have overtaken the key assumptions underpinning the projections.

- Accordingly, we adopted new revenue and spending measures. We approved a supplementary budget in line with the macroeconomic framework agreed with the IMF staff to bring the general budget deficit to 7.2 percent of GDP subject to financing availability (**prior action**). We allocated more support to secure energy supplies and cushion households and businesses (1.2 percent of GDP, relatively higher-than-approved budget), to provide humanitarian needs, including shelter, medicine, food, and additional wage costs (0.4 percent of GDP). We also

replenished the flexible emergency funds in the budget by 0.3 percent of GDP to provide an important buffer should energy prices increase further or other shocks materialize. The deficit will be financed by funding from our development partners, notably the EU's macro-financial assistance and grants, World Bank's development policy financing, the IMF, bilateral donors, and domestic sources.

- We fully recognize that elevated downside risks call for identifying contingency measures, which we are preparing in consultation with IMF staff. Spiraling inflation would necessitate social protection to avert declining living standards. Trade disruptions with Russia, Ukraine, Belarus, and other affected countries would undermine the revenue base, depressing consumption. Further, the increasing uncertainty in the financial sector could impose financing constraints in domestic markets for securities. In the event that further shocks materialize and additional support for vulnerable groups is required, we will reprioritize spending within the budget and reduce capital expenditures to support priority spending needs.

9. We remain committed to fiscal sustainability while pursuing our developmental goals. The nominal depreciation and response to the triple shocks will increase public debt towards 45 percent of GDP, the level anchoring the program. While we expect spending needs to be elevated next year, the outlook for financing is again uncertain and we will therefore target a deficit of 5.1 percent of GDP in 2023. The policy stance underpinning this target is likely to represent a premature tightening of support and we will seek to ease this to the extent that additional financing becomes available. We are committed to a declining path over the medium term once the triple shocks dissipate to retain sufficient buffers against contingent liability risks and shocks. In line with this objective, our medium-term budget framework will target general government deficits of about 3½-4½ percent of GDP in 2024–26. Underpinning this will be development-focused spending—prioritizing capital spending on roads, energy diversification, and water, investments in health and education, as well as supporting SME growth and job creation—supported by reforms to mobilize domestic revenues, enhance spending efficiency, domestic market development, and strengthen fiscal governance and transparency.

Reforms to Strengthen Revenue Mobilization

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

- **Publish a comprehensive tax expenditure analysis of VAT and income taxes (end-June 2022 structural benchmark)** to identify tax relief provisions to be phased out to eliminate abusive practices, tax system inefficiencies, and mobilize revenues. Towards this objective, and with support of the IMF technical assistance, we have already prepared a draft report inventorying tax expenditures and establishing a baseline tax system from which we can begin to assess policy reforms. We will also institutionalize tax expenditure reviews as part of our annual state budget planning process starting in 2022.

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

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

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

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

Reforms to Improve Budget Quality and Fiscal Transparency

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

- **Institutionalize spending reviews.** We see spending reviews as critical for identifying the scope for efficiency improvements and cost effectiveness in key sectors. We completed a spending review for the education sector in 2018, are finalizing a report for the review for the agricultural sector and have launched a spending review in the health sector. We will implement relevant recommendations from the completed spending reviews.

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

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

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

- **Strengthen debt and cash management.** Despite recent progress, especially with respect to data quality and inter-agency coordination, financial instruments are limited and concentrated in short-term maturities, and the government securities market remains shallow. To develop the debt market for government securities and facilitate domestic financing, we will review the legal foundation underlying debt management, strengthen our operational capacity, and take steps to further develop the primary dealer system and develop a new platform for retail investors.

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

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

- **Strengthen our public investment management (PIM) framework to enhance the execution and quality of public investment and close large infrastructure gaps.** Our PIM framework is broadly in line with good international practices, but inconsistent application and narrow coverage significantly limit its effectiveness. Guided by the 2019 PIMA report

recommendations, we aim to strengthen the planning, allocation, and implementation stages of our PIM cycle. To this end: (i) in March, we published on the Ministry of Finance webpage five reports on the execution of investment projects undertaken by the developmental funds (Regional Development Fund, Road Fund, Environment Fund, Energy Efficiency Fund, and foreign-financed projects) in the previous fiscal year (**end-March 2022 structural benchmark)**, with a requirement to update these reports annually as part of the budgetary preparation and reporting; and (ii) we will amend legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and development funds (**end-September 2022 structural benchmark)**.

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

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

- **Enhance social assistance programs.** Despite our efforts to increase allocations to social spending, outlays on social assistance remain low (about 1 percent of GDP), and poverty remains high (around 15 percent). Only 40 percent of payments are means-tested, leaving many poor households without support and creating leakages. In consultation with the World Bank, we initiated the reform of the Ajutorul Social program which strives to increase the allocations and improve the targeting of social assistance programs, by shifting resources from categorical

(including ad-hoc categorical payments) to means-tested payments, and by increasing the coefficients given to the most vulnerable members of recipient families, and by making remote application to means-tested programs operational. We commit to updating our Poverty Reduction and Strategy Paper (PRSP) by end-December 2022.

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

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

B. Monetary Policy

13. Inflation exceeded the outer band of the inflation consultation clause in March 2022, triggering a consultation with the IMF Executive Board. The acceleration in inflation was inevitable given predominantly supply-side pressures that developed in early-2022, including escalating international food and energy prices and substantial adjustments in domestic energy tariffs. The spillovers from the war in Ukraine is also putting pressure on the lei, which depreciated since the intensification of the conflict, with significant pass-through to domestic prices of imported goods. Despite significant tightening of monetary and liquidity conditions, the NBM and IMF staff share the view that high inflation is likely to persist into the third quarter of the 2022 before easing gradually. With the recalibration and modification of the inflation consultation band, inflation is expected to fall within the consultation band in April and is projected to return to the target by the second half of 2023.

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

- ***Policy rate.*** On January 13, February 15, and March 15, we increased the policy rate by 2 percentage points each time to 12.5 percent to combat the accelerating and persistent inflation which reached 18.5 percent in February. The NBM stands ready to continue tightening monetary policy stance in a data-dependent manner to address second round effects from rising commodity prices and anchor expectations.

- ***Reserve requirements.*** As part of the efforts to temper inflationary pressures, we raised the reserve requirement ratio for MDL and non-convertible currencies by 2 percentage points to 28 percent in January but have maintained required reserves for foreign currency at 30 percent. The NBM stands ready to continue to adjust reserve requirements for MDL, if needed.

- ***Foreign exchange intervention.*** Given the exceptionally challenging market conditions, the NBM has undertaken sizeable foreign exchange sales equivalent to 10 percent of FX reserves to limit excessive exchange rate volatility. We are mindful that the scope and duration of the war-induced confidence pressures and energy and food inflation remain uncertain. We face a difficult policy context involving the need to ensure that banks have sufficient liquidity while also having to preserve buffers to forestall emerging shocks in a complex environment. We therefore stand ready to allow necessary exchange rate adjustment and will continue to manage reserves conservatively, limiting interventions to counteracting excessive exchange rate volatility while also actively communicating our intervention strategy to the market.

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

C. Financial Sector Policies

15. Financial sector stability is a necessary condition for achieving our economic objectives. Despite the severity of pressures due to the war in Ukraine, the banking system has remained broadly stable. Since the war began in February through end-March, individuals withdrew close to 10 percent of their bank deposits in FX and MDL, while corporates mostly switched their portfolio to FX. However, the system-wide liquidity coverage ratio remains above the prescribed level at 80 percent by end-March and according to recent NBM stress tests, banks can withstand significant withdrawals of liabilities. With a capital adequacy ratio of 26 percent at end-March, banks remain well capitalized to withstand significant loan losses. Nonperforming loans appear manageable at 6.7 percent, however a significant worsening of debtor balance sheets from the adverse effects of the war in Ukraine and sanctions on Russia and Belarus on the supply chains and rising energy costs could erode capital buffers for some banks. We will closely monitor banks' liquidity pressure and are committed to upgrade and activate the ELA framework and undertake other contingency measures to address the buildup of liquidity risk. To conserve the capital position of banks in an environment of heightened uncertainty, we will issue and maintain guidance on limiting dividend payouts until the shock is weathered.

16. We remain committed to further strengthening the institutional autonomy and governance of the NBM, in consultation with the IMF. In this regard, we are strongly committed to fully implement safeguards recommendations. In particular, we have shared with the IMF staff draft amendments of relevant legislation to strengthen provisions for **(end-June 2022 structural**

benchmark): (i) procedures and criteria for the appointment, resignation, and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) clarifying managerial responsibilities for the governor and the executive board.

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

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

19. We are determined to strengthen our financial supervision, including by bolstering our financial crisis management and macroprudential frameworks in line with the FSSR recommendations. To this end, in 2023, the NBM will prepare a targeted review of the BRRL and the relevant secondary legislation, in line with good practices as appropriate to Moldova and based on IMF staff recommendations, to identify shortcomings, introduce more flexibility to the MREL requirement, the conditions of access to the resolution fund, and the participation of the DGF in the financing of the resolution measures **(end-June 2023 structural benchmark).** We also plan to conduct a comprehensive review of the bank liquidation framework with a view to strengthen liquidation procedures. The NBM plans to allocate more staff in the Financial Stability department to enhance monitoring of systemic risks. We will also close gaps in the macroprudential framework, including by (i) amending the NBM Law to provide an explicit legal mandate for financial stability by end-June 2022, and (ii) strengthening NBM's macroprudential toolkit to introduce caps on loan-to-value (LTV) and debt-service-to-income (DSTI) ratios for financial institutions by end-June 2022. The NBM also intends to update the macro-solvency stress testing framework. Also, by end-June 2022,

we will amend the NBM Act, the Law on Bank Activity, and other relevant legislation to ensure that the NBM is able to conduct its supervisory work without being curtailed by inappropriate deadlines or other impediments to proper financial sector supervision which were introduced by the 2019 Administrative Code.

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

21. We are improving oversight of the non-bank sector's viability, corporate governance, and risk management practices. We have prepared draft amendments to Law 192/1998 (previously draft Law 186), to strengthen provision safeguarding the MCFM's autonomy, and plan to adopt them shortly. Going forward, our immediate focus remains in line with the prior commitment to transfer the regulatory and supervisory responsibilities for the oversight of non-bank credit organizations, savings and lending associations, and insurance companies to the NBM effective July 1, 2023. We are enhancing intra-authority coordination to intensify preparations, including via a comprehensive action plan prescribing steps to clarify the legal framework, advance capacity building, foster business continuity, implement necessary regulatory changes, and manage communication.

- ***Nonbank credit organizations.*** The Non-Bank Credit Organization (NBCO) loans have edged up more recently, accounting for 15 percent of financial sector assets. Despite having no net open currency positions, the large share of FX lending at about 30 percent of total loans exposes them indirectly to exchange rate credit risk and funding from non-residents to maturity and liquidity risks, as sudden funding interruptions could undermine rollover efforts. We have strengthened the law on non-bank credit institutions to facilitate responsible lending by including provisions for due diligence on debtors' repayment capacity and collateralization levels. Towards this objective, we will approve legislations on loan-to-value (LTV) and debt-service-to-income (DSTI) ratios for NBCO's by end-June 2022.

- ***Insurance Companies.*** We finalized the comprehensive solvency assessment by a reputable auditing firm for all insurers issuing green cards **(end-March 2022 structural benchmark)**. In April 2022, we adopted a new law on insurance and reinsurance activity to transpose Pilar II (corporate governance) and Pilar III (reporting standards) of the solvency II framework. We plan to conduct gap analysis for all insurers to evaluate their readiness for the subsequent implementation of Pilar I. Further, the law on Motor Third Party Liability Insurance was approved by the parliament in the first reading at end-March. We are committed to implement resolution steps for insolvent insurers to safeguard assets.

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

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

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

D. State Owned Enterprises and Energy Sector Reforms

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

operating at the central government level—to identify public enterprises to undergo reorganization, privatization, or liquidation, as well as plans to strengthen their governance (**end-September 2022 structural benchmark**). Going forward, we will expand fiscal and financial monitoring of SOEs to the local government level.

26. We have responded swiftly to the energy crisis, but the recurring shocks call for frontloading energy security efforts. Going forward, tariff adjustments will be a critical element of the policy response to possible further import price increases, with additional fiscal support subject to the availability of resources in the budget.

- ***Natural gas.*** Import prices—partly indexed to spot natural gas prices—have increased sharply. We increased domestic gas prices in January to reflect the imported price. We provided direct support to residential consumers up to 150m^3 and up to 500m^3 for non-residential clients in a transparent way. To protect the most vulnerable populations, we will continue leveraging existing well-targeted social assistance programs and plan to build a new framework before the next winter season by October 2022. We will also focus on improvements in energy efficiency. In agreement with the Energy Community Secretariat, ANRE will issue the final certification for the unbundled gas Transmission System Operator (TSO), by August 2023. We have updated the contingency plan and policy options to be prepared for a scenario in which energy prices continue to soar and/or there are significant disruptions in supply.

- ***Electricity.*** We provided a direct compensation to the Central Electricity Supplier (single buyer of renewable and cogenerated electricity linked to district heating) to mitigate the impact of rising prices. Complex negotiations with the key electricity provider are on-going. The onset of the war has led to supply and price uncertainties which complicate the contract extension discussions. We are exploring alternative electricity supplies from Ukraine or Romania, but capacity might be constrained, and prices would be very high. We completed the legislative and regulatory frameworks towards full unbundling of the electricity sector. The 2020 Wholesale Electricity Market Rules (including a functioning balancing mechanism for electricity exchanges) entered into pilot phase on January 1, 2022, and the window for testing was extended to April 30, 2022, due to the emergency situation. The recent trial synchronization of the Moldovan Power System with the ENTSO-E Continental Europe is an important step towards improving the security of electricity supply.

E. Rule of Law and Anti-Corruption

27. Strengthening the rule of law and addressing corruption remain critical priorities. Our predominant aim is to implement reforms to lay the foundation for strong rule of law in Moldova. Towards this end, our immediate goals include cleansing the system and developing a rigorous framework to preserve the independence and accountability of judicial actors, which is critical to addressing corruption, reducing avenues for political influence, instilling more trust in our court system, and improving access to and delivery of justice. We will ensure that due process is in place to hold corrupt actors and government officials accused of using public office for private gain fully

accountable. These priorities are contained in our Strategy on Judicial Independence and Integrity, which was adopted by Parliament in early-December 2021. We commit to carrying out these reforms in line with constitutional principles and internationally recognized norms and standards. We are also committed to combatting high-level corruption, eliminating bad actors in the public sphere, and to strengthening the integrity, capacity, and independence of key anti-corruption institutions.

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

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

30. We are fully committed to tackling entrenched corruption by strengthening the anti-corruption legal framework. In September 2020, we amended the Criminal Code to ensure that the main corruption offences are classified as serious offences. As a result of these amendments, extended statute of limitations and application of protection measures for witnesses and other participants in criminal procedures would be possible in connection with these offences. To ensure that application of sanctions in corruption cases is proportionate, effective, and dissuasive, consistent with international norms and standards, and in consultation with Fund staff, we have started a comprehensive process to amend the Criminal and Criminal Procedure Codes to add clear

criteria and procedures for the application of plea bargaining and other sentence reduction or mitigation provisions and to prohibit the reduction of a term of imprisonment in corruption cases below the statutory minimum (**end-December 2022 structural benchmark**).

31. We will promote the integrity, capacity and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption. In consultation with Fund staff, and taking into account opinions of the Venice Commission, in April 2022, we improved the selection process for the head of the Anti-Corruption Prosecution Office (APO) by amending the Law on the Prosecution Service **(end-March 2022 structural benchmark)** to: (i) allow legal professionals without prosecutorial experience to apply for the position of head of the APO; and (ii) establish a commission comprised of members with impeccable reputation and high professional and moral qualities to vet candidates for the APO head in a balanced, transparent, and fair manner using objective criteria stipulated by law. The recently amended Law on Prosecution Service requires that at least half of the commission's members be respected experts with recognized ethical standards and experience in anticorruption prosecution, including with relevant experience in other countries and that the commission include representatives of civil society, with appropriate experience or a record of advocacy in corruption cases. We will expeditiously initiate the process for the selection of the head of the APO, in accordance with the amended Law on the Prosecution Service. To this end, we will establish the special pre-selection committee, which will include experts with international experience, and appoint an individual with the necessary professional skills and irreproachable reputation to head of the APO by the end of 2022 (**end-December 2022 structural benchmark**). We will also amend relevant legislation to narrow the mandates of the APO and NAC to high-level corruption involving investigation or prosecution of (i) public officials of high office and (ii) corruption "in large proportions" or "resulting in serious consequences", as defined by the Moldova Criminal Code **(end-December 2022 structural benchmark)**. We will also intensify scrutiny of high-level officials' sources of wealth, including assets held abroad, leveraging the asset declaration regime and the illicit enrichment offence.

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

F. Economic Statistics

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

NSS that covers improvements in the production and dissemination of official statistics to enhance the quality and accessibility of statistical data. We will develop legal framework for statistical production in line with relevant EU standards, in particular to enable access to personal data from administrative and private sources for statistical purposes. We plan to strengthen coordination within the NSS and allocate adequate resources to improve data collection and processing.

G. Program Monitoring

34. The heightened uncertainty and pressing financing needs necessitate frequent program monitoring. For 2022, it is proposed to set up reviews, prior actions, quantitative and performance criteria, indicative targets, structural benchmarks, and an inflation consultation clause for end-June, end September, and end-December. The quantitative performance criteria, inflation consultation clause, and indicative targets are set out in Table 1, as specified in the Technical Memorandum of Understanding (TMU) attached to our Letter of Intent dated April 26, 2022. The prior actions, along with proposed structural benchmarks, are set out in Table 2.

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

	2022					2023	
	March 1/		June	September	December	March 1/	June
	Prog. Target	Actual	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target
1. Quantitative performance criteria 1/							
Ceiling on the cash deficit of the general government	1,705	1,206	9,845	14,521	19,781	3,155	6,715
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) 2/	3,447	3,260	2,761	2,515	2,692	2,806	2,946
2. Continuous performance criteria							
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	0	0	0	0
3. Indicative targets							
Ceiling on the general government wage bill	4,900	4,778	11,102	16,505	21,485	5,485	12,020
Floor on targeted social spending undertaken by the general government 3/	835	620	905	1,055	1,546	980	1,217
Floor on developmental spending undertaken by the general government 4/	5,976	7,192	12,617	19,390	28,958	6,093	13,290
4. Inflation Consultation Bands (in percent)							
Outer Band (upper limit)	7.0		32.5	29.5	19.5	12.4	8.0
Inner Band (upper limit)	6.5		31.0	28.0	18.0	10.9	6.5
Center point	5.0	22.2	29.5	26.5	16.5	9.4	5.0
Inner Band (lower limit)	3.5		28.0	25.0	15.0	7.9	3.5
Outer Band (lower limit)	3.0		26.5	23.5	13.5	6.4	2.0

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

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

	Measure	Rationale	Timeframe	Status
Prior Actions				
1	Parliament to adopt amendments to the 2022 budget in line with the macro-framework agreed with IMF staff, to bring the 2022 general government deficit to 7.5 percent of GDP, subject to financing availability.	Support macroeconomic recovery and mitigate impact of the pandemic		
Structural Benchmarks				
Anti-Corruption and Rule of Law				
1	Amend relevant legislation, in consultation with Fund staff, and taking into account opinions of the Venice Commission, to: (i) allow legal professionals without prosecutorial experience to apply for the position of head of the APO; and (ii) establish a commission comprised of members with impeccable reputation and high professional and moral qualities to vet candidates for the APO head in a balanced, transparent, and fair manner using objective criteria stipulated by law.	Strengthen anti-corruption institutions	end-March 2022	Not met. Implemented in April.
2	Amend relevant legislation to narrow the mandates of the APO and NAC to high-level corruption involving investigation or prosecution of (i) public officials of high office and (ii) corruption "in large proportions" or "resulting in serious consequences", as defined by the Moldova Criminal Code.	Promote the integrity, capacity and independence of key anti-corruption institutions to effectively detect, investigate, and prosecute high-level corruption.	end-December 2022	
3	Amend the Criminal and Criminal Procedure Codes to add clear criteria and procedures for the application of plea bargaining and other sentence reduction or mitigation provisions and to prohibit the reduction of a term of imprisonment in corruption cases below the statutory minimum.	Strengthen enforcement of the anti-corruption legal framework	end-December 2022	
4	In accordance with the amended Law on Prosecution Service, establish the special pre-selection committee, which includes experts with international experience, and appoint an individual with the necessary professional skills and irreproachable reputation to the head of the Anti-Corruption Prosecution Office (APO).	Strengthen anti-corruption institutions.	end-December 2022	New structural benchmark.
Fiscal Governance				
5	Publish a comprehensive tax expenditure analysis of VAT and income taxes to identify tax relief provisions to be phased out.	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end-June 2022	
6	Publish a report on the execution of investment projects undertaken by extrabudgetary funds in the previous fiscal year.	Strengthen the public investment management framework	end-March 2022	Met.
7	Operationalize the integrated taxpayer register.	Strengthen tax administration	end-June 2022	
8	Expand the coverage of a comprehensive IT-based staff registry to all central government employees.	Strengthen the unitary pay system in the budgetary sector	end-June 2022	
9	Amend legislation and regulations to expand the coverage of the existing PIM framework to include projects implemented by the state budget, externally funded projects, and extrabudgetary funds.	Strengthen the public investment management framework	end-September 2022	
Financial Sector Oversight				
10	Finalize the comprehensive solvency assessment report by a reputable auditing firm for all insurers issuing green cards based on end-December 2020 data.	Rehabilitate the insurance sector	end-March 2022	Met.
11	Strengthen provisions for the institutional autonomy of the NBM; (i) the procedures and criteria for the appointment, resignation and dismissal of the Governor and Deputy Governors and members of the Supervisory Board; (ii) prohibiting influence from public and private parties; and (iii) clarifying managerial responsibilities for the governor and the executive board.	Strengthen the institutional autonomy and governance of the NBM	end-June 2022	
12	NBM to approve secondary ELA regulations to enhance rules for collateral eligibility, risk controls, and internal procedures.	Strengthen financial safety net	end-June 2022	
13	Prepare a targeted review of the BRRL and the relevant secondary legislation, in line with good practices as appropriate to Moldova and based on IMF staff recommendations, to identify shortcomings, introduce more flexibility to the MREL requirement, the conditions of access to the resolution fund, and the participation of the DGF in the financing of the resolution measures	Strengthen financial supervision	end-June 2023	New structural benchmark.
SOE and Regulatory Framework Reforms				
14	The Public Property Agency to require all SOEs at the central government level to submit quarterly financial statements.	Enhance oversight capacity over the SOE sector and strengthen fiscal risk monitoring	end-March 2022	Met.
15	The government will develop and adopt a state-ownership strategy—for all SOEs operating at the central government level—to identify public enterprises to undergo reorganization, privatization, or liquidation, as well as plans to strengthen their governance.	Improve SOE governance and reduce fiscal risks	end-September 2022	

Attachment II. Consultation with the IMF Executive Board on the Missed Inflation Target Under the Inflation Consultation Clause

Consultation on the Breach of the ICC Target in March 2022

National Bank of Moldova

April 26, 2022

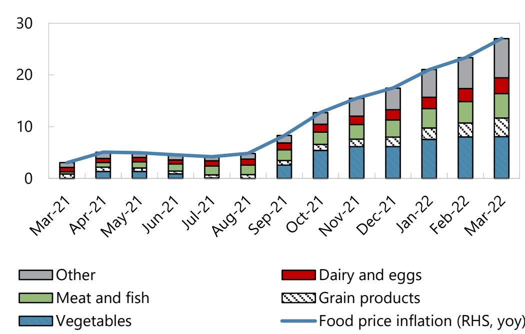
In March 2022, inflation (at 22.2 percent YoY) exceeded the upper bound of the 5 percent ±2 percentage points of the Inflation Consultation Clause (ICC) outer band, agreed under the 2021 ECF/EFF arrangement. This letter explains: (i) the reasons why inflation has breached the upper limit of the ICC band; and discusses; (ii) the policy response; and (ii) the outlook for inflation.

The reasons why inflation has breached the upper limit of the ICC band

1. Actual inflation deviated from the target primarily due to rising food prices, substantial adjustments in energy tariffs, and pent-up demand. We discuss these factors briefly below:

- **High global and domestic food prices.** Annual rate of the food price inflation in Moldova started to accelerate sharply in 4Q2021 and continued into 1Q2022. This was largely driven by the surge in global food prices which coincided with the substitution of local products (mainly vegetables) with imported goods on the domestic market. Factors that impacted global food prices directly include higher demand associated with post-pandemic recovery and poor harvests for certain crops, while those with an indirect impact included rising costs for energy and fertilizers. In March, food prices in Moldova grew by 27 percent yoy, with prices of vegetables soaring by 65 percent yoy and prices of basic goods increasing by more than 20 percent yoy. This acceleration also reflects the impact from the war in Ukraine, given that about a third of Moldova's food imports come from Russia and Ukraine. Given that food constitutes a large share in Moldova's CPI basket, these food price and supply shocks translate into higher inflation relative to many other countries.

Contributions to Food Price Inflation
(Percent)



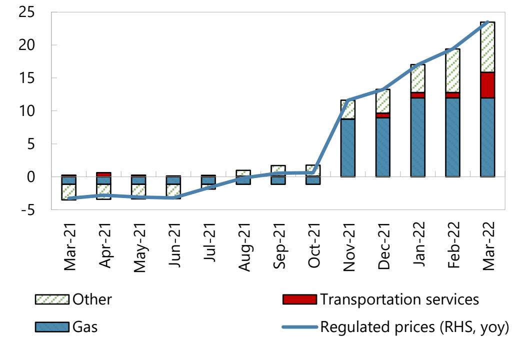
Source: NBM.

- **Substantial adjustments in energy prices in response to surging import prices.** Moldova's tariff for natural gas was increased in November 2021 and then again in January 2022, following the steep increase in international natural gas prices and the new import contract with Gazprom agreed in 4Q2021. As a result, regulated prices spiked in November and continued to rise through 1Q2022, also reflecting the impact of tariff increases on related services (including central heating, transport, and other services).

- **Stronger private consumption as economic recovery from the pandemic started to take root.** Private consumption recovered strongly in 2021 in line with the post-pandemic economic rebound. This positive evolution of consumption was supported by the increase of the disposable income of the population, but also by the relaxation of the credit conditions from the previous periods. As a result, the main sources of financing of household consumption in 2021 were salaries and loans, complemented by remittances which also recorded positive growth rates in 2021. These developments continued in early 2022.

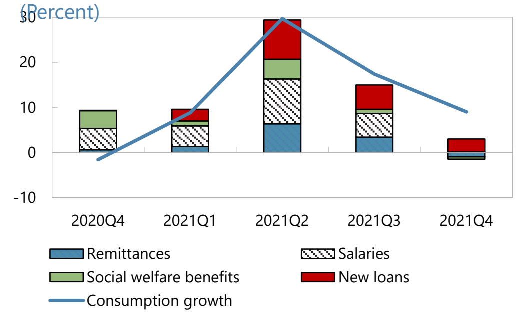
2. **Cost pressures have persistently pushed up core inflation since mid-2021, but this trend accelerated since November 2021.** Rising raw material prices on international markets have led to higher prices for goods produced in or imported into Moldova. This is having a large impact on clothing and furniture subcomponents of core inflation. The latter subcomponent also reflects interruptions in imports from Ukraine, Belarus and Russia since February 2022. In addition, there have been significant increases in prices for construction materials recorded in the last few months of 2021 that continued in 2022, reflecting accelerating prices increases internationally but also the recovery from the pandemic.

Contribution to Regulated Prices
(Percent)



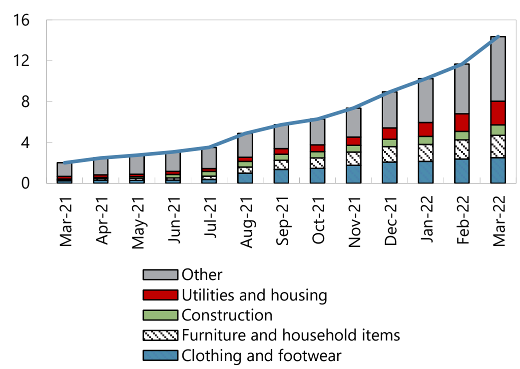
Source: NBM.

Contributions to Disposable Income Growth and Consumption Growth
(Percent)



Source: NBM.

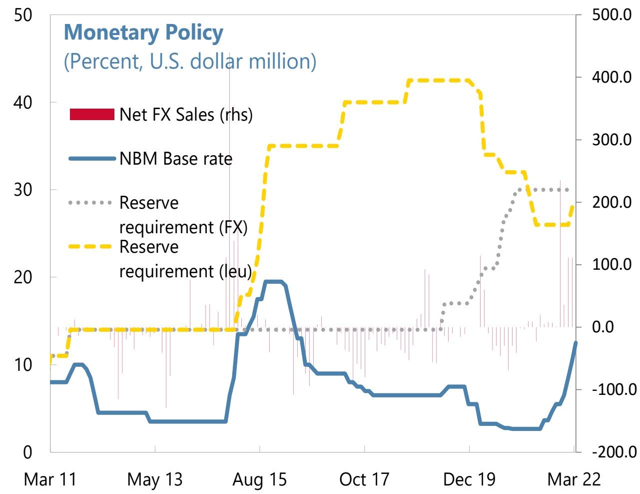
Contributions to Core Inflation
(Percent)



Source: NBM

Policy Response

3. **Beginning July 2021, we shifted to a tightening cycle and begun to hike the base rate on account of a worsening inflation outlook.** With inflation picking up in the second half of 2021, and in anticipation of further price increase toward the end of the year, we gradually tightened our monetary policy starting in July. The policy rate was increased by a cumulative 285 basis points between July and December 2021 (from 2.65 percent to 6.5 percent). Such policy response was appropriate and aimed at containing demand-driven price increase, and anchor inflation expectations. We also intervened moderately on the FX market to limit depreciation pressures on the domestic currency. However, additional supply-side factors emanating from adjustments of regulated prices and other utility tariffs to the gas price hikes, continued to push inflation up.



Source: National Bank of Moldova.

4. **Since the beginning of the year, monetary policy has tightened further.** In response to further acceleration of inflationary pressures in the first months of 2022, the NBM base rate was increased by a cumulative 600 basis points as of March (three consecutive 200 basis points increase in January, February, and March). As of mid-April 2022, the central bank policy rate stands at 12.5 percent. We also raised the reserve requirements for MDL deposits by 2 percentage points. In addition, depreciation pressures on our currency, the result of spillovers from the war in Ukraine and sanctions against Russia and Belarus, triggered significant FX interventions in February and March. These interventions mitigated depreciation pressures, although risks remain elevated.

Outlook for Inflation

5. **High inflation is expected to persist in the near term.** Driven by further increases in food and energy prices, depreciation pressures, as well as tariff adjustments (including in electricity, transport, and gas), we project a persistent upward trend of inflation, with the peak to be reached in the third quarter of this year. We forecast inflation to stand at about 26 percent in April and to increase further in May. We project inflation to fall close to the NBM's target band only by end-2023.

6. **We are carefully monitoring inflationary pressures and risks, and we stand ready to apply monetary instruments to bring inflation back to the target range.** In line with our inflation objective, we will continue adjusting our monetary policy stance with the goal to bring inflation back to the target. We will continue implementing data-driven policy decisions and increase the policy rate in the coming months, if needed. We will use other instruments at our

disposal (including reserve requirements and FX interventions) to reinforce our policy response, should it be deemed necessary.

7. Volatile commodity prices and the current uncertain environment resulting from the war in Ukraine are key challenges for monetary policy formulation in Moldova. We are also monitoring signs of accelerating second round effects of rising food and energy prices, which may be substantial and longer lasting, should spillovers from the conflict in Ukraine further exacerbate. Furthermore, unprecedented uncertainties blur our assessment of inflationary risks, complicating our monetary policy decisions. We also face trade-offs between tightening monetary policy in response to inflationary pressures, containing financial stability risks, and maintaining banking system liquidity and supporting a slowing economic activity. While appropriate as an immediate crisis response, we acknowledge that FX interventions should be limited to preventing a disorderly adjustment of the exchange rate and curbing excess volatility. Noting risks of significant FX pass-through from depreciation to inflation, going forward, we will rely further on exchange rate adjustments as a shock absorber and aim to preserve sufficient FX buffers to cope with future shocks.

Attachment III. Technical Memorandum of Understanding

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

A. Quantitative Program Targets

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

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

Indicative targets are set on:

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

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

B. Program Assumptions

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

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

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

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

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

C. Institutional Definitions

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

D. Program Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

E. Inflation Consultation Mechanism

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

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

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

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

Inflation Consultation Bands

	2022			2023	
	June	September	December	March	June
Outer Band (upper limit)	32.5	29.5	19.5	12.4	8.0
Inner Band (upper limit)	31.0	28.0	18.0	10.9	6.5
Center point	**29.5**	**26.5**	**16.5**	**9.4**	**5.0**
Inner Band (lower limit)	28.0	25.0	15.0	7.9	3.5
Outer Band (lower limit)	26.5	23.5	13.5	6.4	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$79.6 million and US$290.5 million respectively, in 2022, valued at the program exchange rates.

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

	2022			2023	
	June	September	December	March [2/]	June
	Prog. Target	Prog. Target	Prog. Target	Prog. Target	Prog. Target
Programmed external financing flows to adjust the floor on the NIR target (US$ million)	185	278	370	43	85
Programmed external financing flows to adjust the ceiling on the cash deficit (MDL million)	3,663	5,494	7,325	915	1,830

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

G. Reporting Requirements

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

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

May 2, 2022

AD HOC REVIEW UNDER THE EXTENDED CREDIT FACILITY; REQUEST FOR AUGMENTATION AND REPHASING OF ACCESS, MODIFICATION OF PERFORMANCE CRITERIA, AND COMPLETION OF THE INFLATION CONSULTATION UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS—DEBT SUSTAINABILITY ANALYSIS

Approved By
Philip Gerson (EUR), Maria Gonzales (SPR), and Marcello Estevão and Lalita M. Moorty (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

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

Moldova's risk of external debt distress remains low but overall risk of debt distress has been reclassified to moderate, down from low risk in the December 2021 Debt Sustainability Analysis (DSA).[1] This is because the present value (PV) of public debt-to-GDP ratio remains below the indicative threshold under the baseline scenario but exhibits a sustained breach of the threshold under a real GDP growth shock scenario. All the external debt indicators remain below the relevant indicative thresholds under the baseline and shock scenarios. Overall, public debt is considered sustainable with current debt carrying capacity assessed as strong,[2] despite the COVID pandemic-induced increase in public debt in 2020 coupled with envisaged increasing financing

[1] The previous DSA, dated December 8, 2021, accompanied Moldova's Staff Report for the 2021 Article IV Consultation and request for an arrangement under the ECF/EFF program, IMF Country Report No. 21/1.

[2] Moldova's Composite Indicator (CI) index, based on October 2021 WEO update and the World Bank's 2020 CPIA, indicates that the country's debt carrying capacity is strong (3.14).

needs to mitigate the economic and humanitarian fallout of the war in Ukraine, and the projected medium-term developmental spending needs. This assessment reflects a baseline which assumes that the authorities remain committed to prudent fiscal policy under the ECF/EFF program. In the long term, the financing mix is expected to shift from concessional to commercial borrowing by 2032. Private sector external debt remains relatively high, compared to peers, which could pose significant risks to external debt sustainability. The public debt trajectory remains vulnerable to risks, particularly from shocks to real GDP growth, calling for the need to broaden growth drivers. In addition, improving governance, enhancing the effectiveness of public spending, and strengthening the management of fiscal risks, including those stemming from state-owned enterprises, are priorities to contain public debt vulnerabilities.

PUBLIC DEBT COVERAGE

1. **Moldova's public debt includes obligations of the public sector (central government, local authorities, and public entities).** Public debt includes external and domestic obligations of the central government, including arrears to suppliers and guaranteed debt. Domestic debt includes debt of state and municipal enterprises, companies with full or majority public ownership, and of local public authorities with maturity of a year and above, as stipulated in Law No. 419 (2006) on Public Sector Debt, State Guarantees and State On-lending.[3] Debt contracted by the central government and central bank owed to the IMF is also covered.[4] The debt coverage is on the residency basis.

Text Table 1. Moldova: Public Debt Coverage

Public debt coverage

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

[3] PPG debt covers gross debt of the general government. SOE debt in Moldova is primarily driven by externally financed project loans that are on-lent by the central government to SOEs. Both on-lending to the private sector (operationalized through commercial banks) and to SOEs are part of public guarantees and are included in the central government debt. Non-guaranteed SOEs debt is also included in the public debt. Debt of SOEs with maturity longer than a year accounts for about 2 percent of GDP as of 2021. Staff and the authorities will define an agenda with concrete steps towards expanding debt coverage for local governments' debt, SOEs and PPPs to include all existing debt obligations. Due to the lack of data, information on PPPs is currently limited. The change in coverage complicates intertemporal analysis of PPG debt. The contingent liabilities shock from SOE debt is set at the default value of 2 percent of GDP to reflect risks associated with borrowing of SOEs majority owned by the state, while a contingent liability shock of 12 percent of GDP is meant to also capture risks from PPPs and SOEs that are partially owned by the state.

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

Text Table 1. Moldova: Public Debt Coverage (concluded)

Public debt coverage and the magnitude of the contingent liability tailored stress test

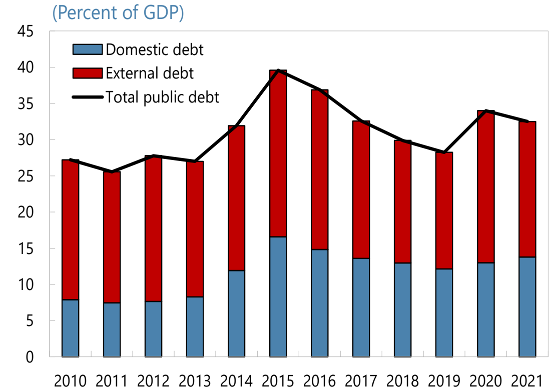
1	The country's coverage of public debt	The central, state, and local governments plus social security, central bank, government-guaranteed debt, non-guaranteed SOE		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	10	
	Total (2+3+4+5) (in percent of GDP)		12.0	

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

BACKGROUND ON DEBT

2. **Public debt declined in 2021 to 32.5 percent of GDP, from almost 34 percent of GDP in 2020, reflecting unwinding of the pandemic-induced increase in borrowing and the denominator effect from strong GDP.** Public and publicly guaranteed (PPG) debt reached about 40 percent of GDP in 2015 up from about 27 percent of GDP in 2010 (Text Figure 1). A key driver of the spike in the public debt was the issuance of a state guarantee to the National Bank of Moldova (NBM) to provide emergency liquidity to the banking sector. During 2016–19, public debt was on a downward trend, returning towards the level seen in 2010. In 2019, after almost a year of a deadlock over concerns about governance and deteriorating democratic standards during the pre-election campaign, the EU and other donors resumed their financial assistance to Moldova. However, in 2020, COVID pandemic-induced borrowing pushed up public debt, driven by increases in both domestic and external debt (Text Table 2).[5] A rebound in strong economic activity and receding tailwinds from COVID-19 reduced government spending and borrowing in 2021, contributing to a decline in public debt to 32.5 percent of GDP. Currently, about two-third of PPG external debt is from multilateral institutions and about a third of PPG domestic marketable debt are long-term debt securities (government securities with maturity longer than one year). Other domestic marketable debt is mainly short-term and held by the banking system. In addition, the stock of domestic arrears to suppliers amounting to about MDL 30 million (0.01 percent of GDP) by end-2021 is included in domestic debt.

Text Figure 1. Evolution of Public Debt, 2010-2021
(Percent of GDP)



Sources: IMF WEO and IMF staff calculations.

[5] Although eligible, Moldova did not participate in the 2020–21 Debt Service Suspension Initiatives.

Text Table 2. Moldova: Decomposition of Public Debt and Debt Service by Creditor, 2021–2023 1/

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

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
		(Percent total debt)	*(Percent GDP)*				*(Percent GDP)*		
Total	4617.4	100.0	33.8	1938.4	1912.1	2007.6	14.2	13.7	13.5
External	2650.9	57.4	19.4	226.0	216.3	233.8	1.7	1.6	1.6
Multilateral creditors[2,3]	2532.1	54.8	18.5	154.4	182.1	224.6	1.1	1.3	1.5
IMF	832.0	18.0	6.1						
World Bank	813.5	17.6	5.9						
ADB/AfDB/IADB	0.0	0.0	0.0						
Other Multilaterals	886.6	19.2	6.5						
o/w: list largest two creditors	580.7	12.6	4.2						
EIB	422.2	9.1	3.1						
EBRD	158.5	3.4	1.2						
list of additional large creditors	0.0	0.0	0.0						
Bilateral Creditors[2]	118.8	2.6	0.9	60.5	34.2	9.2	0.4	0.2	0.1
Paris Club	111.8	2.4	0.8	23.7	28.3	9.2	0.2	0.2	0.1
o/w: list largest two creditors	68.8	1.5	0.5						
JICA	49.6	1.1	0.4						
Government of Russia	19.2	0.4	0.1						
list of additional large creditors	0.0	0.0	0.0						
Non-Paris Club	7.0	0.2	0.1	36.8	5.9	0.0	0.3	0.0	0.0
o/w: list largest two creditors	6.5	0.1	0.0						
Government of Romania	5.7	0.1	0.0						
Novo Gaming M Technologies GMBH	0.9	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors	0.0	0.0	0.0						
list of additional large creditors	0.0	0.0	0.0						
Domestic	1966.5	42.6	14.4	1712.4	1695.7	1773.8	12.5	12.2	11.9
Held by residents, total	1966.4	42.6	14.4	1712.4	1695.7	1773.8	12.5	12.2	11.9
Held by non-residents, total	0.1	0.0	0.0						
T-Bills	1024.4	22.2	7.5	1424.5	1561.0	1544.0	10.4	11.2	10.4
Bonds	857.4	18.6	6.3	212.2	102.3	207.0	1.6	0.7	1.4
Loans*	84.6	1.8	0.6	75.6	32.4	22.8	0.6	0.2	0.2
Memo items:	103.7								
Collateralized debt[4]	n/a	n/a	n/a						
o/w: Related	n/a	n/a	n/a						
o/w: Unrelated	0.0	n/a	n/a						
Contingent liabilities	103.7		0.8	0.0	0.5	0.5	0.0	0.0	0.0
o/w: Public guarantees	103.7		0.8	0.0	0.5	0.5	0.0	0.0	0.0
o/w: Other explicit contingent liabilities[5]	n/a	n/a	n/a						
Nominal GDP	13672.4			13672.4	13954.1	14911.7			

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

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

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

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

3. **Similarly, Moldova's gross total external debt declined by about 10 percentage points of GDP in 2021 from about 74 percent of GDP in 2020, driven by reduced private external borrowing.** In 2021, PPG external debt declined by 2.2 percentage points of GDP from 2020 of about 21 percent of

GDP, reflecting tailwinds of the base effect of higher external borrowing to mitigate the effects of the pandemic in 2020 compared to about 16 percent of GDP in 2019. The observed reduction of gross total external debt during 2016–19 largely reflects the decline in private external debt, which at above 40 percent of GDP since 2010[6], remains relatively elevated compared to peers. The strong appreciation of the nominal exchange rate by about 14 percent during this period amid renewed capital inflows also contributed to the reduction in gross external debt. The recent decline in private sector debt was due to a decrease in overseas borrowing by the banking sector, reflecting the tailwinds impact of the banking crisis in 2014.[7] Similar to other Central and Eastern European countries, while gross total external debt in Moldova is sizable at 63.6 percent of GDP in 2021, about half of the private debt are liabilities to direct investors (Moldovan foreign-owned companies borrowing from their parent companies abroad). Short-term debt of the non-bank sector is high as well, about one-third of non-bank debt, and consists of trade credits, arrears, and other debt liabilities, mostly for the import of natural resources. Foreign assets of the non-bank sector have shrunk in recent years but remain sizable (about 35 percent of gross nonbank external liabilities) and mainly held in the form of currency, deposits, and short-term loans (trade credits). Thus, while high private external debt in Moldova continues to pose risks to external debt sustainability, overall risk of total external debt distress is assessed as low because PPG external debt is held mainly by multilateral and bilateral donors and is mostly medium and long term and on concessional terms.

MACROECONOMIC OUTLOOK

4. **The macroeconomic assumptions underlying the projections are consistent with the proposed augmentation of the ECF/EFF-supported program in the Policy Note.** The main changes relative to the previous DSA of December 2021 include a downward revision to the 2020 GDP contraction and a significant recovery in 2021 (Text Table 3). Long run macroeconomic assumptions remain broadly unchanged. Economic performance is expected to remain solid over the medium term, with steady growth, moderate inflation, and a gradual narrowing of the current account deficit:

- **Real GDP.** 2021 real GDP growth was higher than envisaged, jumping to almost 14 percent, reflecting a stronger-than-expected recovery from the pandemic.[8] However, the nascent recovery in activity is envisaged to weaken in 2022, with real growth expected to decline to 0.3 percent, owing to the war in Ukraine and sanctions against Russia and Belarus. Spillovers from the war will impact the economy through a variety of channels in the near and medium-term: disruptions to trade depressing net

[6] Private external debt includes Moldovagaz debt owed to Gazprom for gas delivery to Moldova, contributing to a peak in private external debt at about 48 percent of GDP in 2024, with the total external debt reaching 75.3 percent of GDP.

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

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

exports, adverse confidence effects weighing on foreign and domestic investment and exerting pressure on FX market. Remittances could also be impacted, although the impact is unknown at this point. High energy costs, in particular the hike in gas tariffs, coupled with anticipated higher food prices and implied uncertainty are also expected to negatively affect aggregate demand. Over the medium-term, growth is expected to strengthen to an average of about 5 percent, driven by broad-based program-induced reforms including additional fiscal support envisioned to close Moldova's developmental needs.[9] The additional fiscal support envisioned under the program is expected to be directed to address critical human and infrastructure bottlenecks (which have been ringfenced by a "floor" in the development spending as part of the IMF-supported program).

- **Inflation.** Driven by rising food prices, adjustments in energy tariffs, and pent-up demand, inflation accelerated to 22.2percent (y/y) in March, well above both the NBM's target band and the consultation band under the program. The war in Ukraine is also putting pressure on the MDL which depreciated significantly since the intensification of the conflict, with pass-through expected to exert pressure on domestic prices (Box 1, main text). Recent developments in the gas market have further complicated the picture due to high tariff adjustments feeding into regulated prices, while the implied decrease in purchasing power and arising uncertainty might curtail aggregate demand and core inflation. For 2022, average inflation is projected to rise to 23.5 percent (y/y), before receding towards the inflation target at end-2023 and over the medium-term, where inflation is expected to remain broadly anchored around the National Bank's inflation target. The inflation outlook is subject to significant downside risks.

- **Fiscal.** The fiscal position improved in 2021, with the deficit falling to 2.6 percent of GDP from 5.3 percent in the previous year due to spending under-execution and buoyant revenues, including increased grant financing. However, the energy crisis and spillover effects of the war in Ukraine are expected to strain the government balance sheet in 2022, with the deficit expected to increase to 7.2 percent of GDP. Revenues are projected to fall as a share of GDP relative to the past two years (30.7 percent of GDP vis a vis 32 percent in 2021 and 31.4 percent in 2020) as the impact of trade frictions and reduced consumer and business confidence are felt. Meanwhile, additional spending allocations of 2.5 percent of GDP are required to cushion the impact of escalating energy prices on households and businesses, support households living standards in the face of high inflation and provide urgent humanitarian support to refugees fleeing Ukraine, raising fiscal deficit, and exacerbating external financing needs. These multiple crises are expected to delay the implementation of some reforms envisioned under the ECF/EFF arrangement. However, over the medium-term, improvements in revenue and spending efficiency and supporting governance reforms under the program are expected to support fiscal consolidation and improve debt sustainability. Measures to be taken to that effect include strengthening tax administration and improving tax compliance; streamlining of tax exemptions; improvements to the efficiency of capital spending by strengthening public investment management; strengthening the unified public wage system and improving control over the wage bill; and current expenditure rationalization. Given the shock to revenues, the crisis-driven expansion in

[9] Nevertheless, the output gap remains negative in the medium-term following the sharp decline in GDP of 8.3 percent in 2020.

necessary spending, and binding domestic financing constraints in 2022, total public debt is envisaged to peak at 43 percent of GDP in 2024 before declining to 40.6 percent in 2027.

- **External sector.** The current account deficit worsened to 11.7 percent of GDP in 2021, from about 8 percent of GDP in 2020, reflecting a strong rebound in economic activity and an uptick in the energy import bill. The current account deficit is expected to worsen further to 13 percent of GDP in 2022 due to reduced exports and a spike in commodity prices of imports, before narrowing to 8.5 percent of GDP by 2027; financed by strong capital and investment flows catalyzed by the ECF/EFF program. Despite the pandemic, the MDL strengthened in 2020–21, but is expected to weaken in 2022, reflecting an increase in imports coupled with subdued capital inflows due to the heightened uncertainty. At end-December 2021, gross international reserves stood at US$3.9 billion, up from US$3.78 billion recorded in 2020, to comprise about 173 percent of the Fund's composite reserve adequacy metric. Gross international reserves are expected to decline in 2022 due to a slump in capital inflows amid heightened uncertainty and an increase in commodity prices of imports but are expected to trend upward from 2023 and beyond, ensuring reserves adequacy.

- **External borrowing.** The DSA assumes that all contracted but undisbursed concessional loans will be fully disbursed over the medium-term as planned by the authorities. New borrowings, including commercial with Moldova having graduated from IDA-eligible borrowing in 2021, are projected to rise over the longer term to finance the country's high development needs. This plays a key role in the DSA and explains to some extent the upward shift in debt burden indicators after 2030, including for total external debt level indicators.[10] Moldova will continue to benefit from significant grant financing in the medium-term, driven in large part by the profile of the new concessional borrowing, leaving the grant element of new borrowing at about 40 percent. In the short-term, the external financing need—estimated at about US$578 million in 2022[11]—will be fully covered by the World Bank's Development Policy Operation (DPO) (US$150 million),[12] the European Commission (US$121 million), other development partners' disbursements (about US$100 million), and the augmented ECF/EFF disbursement of about US$208 million (SDR 149.45 million, of which SDR 99.90 million under the EFF and SDR 49.55 million under the ECF), all of which are to be disbursed for budget support.[13] In 2023–25, the remaining external financing gap of US$819 million will be financed mainly by the IMF disbursements (around US$550 million) under the ECF/EFF program, EU funds via macro-financial assistance to Moldova under a new financing package (about US$129 million), and the World Bank's DPO (US$140 million).

[10] While this assumption is not based on concrete borrowing plans in the longer-term, it reflects the baseline assumptions, under which Moldova will continue to borrow into the future to finance productive infrastructure investments.
[11] Exceptional financing.
[12] This includes exceptional financing from the IDA19 Crisis Response Window, as approved by the Board of Executive Directors in June 2021 and the anticipated approval of the Exceptional IDA19 Support to Moldova endorsed by IDA Deputies in April 2022.
[13] The authorities also received new SDR allocation of about US$236 million (SDR 165.3 million) which was channeled for budget support.

- **Public debt to GDP is expected to increase in 2022–27 with an increase in domestic and external borrowing.** An increase in public debt reflects the government increasing financing needs to mitigate the economic and humanitarian spillovers of the war in Ukraine, while also responding to rising energy cost and manage the still-emerging COVID variants' impact on livelihoods and the economy. In 2022, external debt is envisaged to rise by about 6 percentage points of GDP with financing from multilateral and bilateral sources. Domestic borrowing is assumed to be net zero in 2022, covering the costs of rolling over existing debt. Demand for government securities is expected to improve in 2023, allowing modest net financing of MDL 5 billion and thereafter we assume demand to resurge. The weighted average interest rate on short-term debt is assumed to be around 13 percent in 2022, falling to 6 percent in 2023 and declining thereafter over the medium-term to 4.5 percent.

Text Table 3. Moldova: Key Macroeconomic Assumptions
(DSA March 2022 vs DSA December 2021)

	2019-2021	2022-2027	2028-2032	2022-32
Real GDP growth (percent)				
Curent DSA	3.1	3.9	5.0	4.4
Previous DSA	1.4	5.2	5.0	5.1
Inflation (GDP deflator, in US dollar terms)				
Curent DSA	3.3	0.8	1.9	1.3
Previous DSA	3.1	0.8	1.9	1.3
Total Revenue (percent of GDP)[1]				
Curent DSA	30.4	31.6	33.0	32.2
Previous DSA	30.1	31.8	32.3	32.0
Current Account Deficit (non-interest, in percent of GDP)				
Curent DSA	8.9	9.6	6.6	8.2
Previous DSA	8.7	7.6	5.5	6.6

Source: Moldova authorities and Staff calculations.
[1] Total revenue, excluding grants.

5. **The debt sustainability framework's realism tools suggest that the baseline projections are reasonable (Figures 3 and 4).** There is a deviation in the evolution of the projection of both external and PPG debt to GDP ratios for the current and previous DSA vintages, and from the DSA from the 5 years past. In terms of projections, the current DSA deviates from the previous DSA mainly due to the incorporation of: (i) revised macroeconomic assumptions reflecting subdued growth in 2022 (a denominator) due to the war in Ukraine, and (ii) the looser fiscal policy going forward to support developmental needs and growth. For the **external public debt**, projected debt ratios over the medium term have risen owing to an expected increase in financing needs to provide social and economic support to cushion the effects of the war in Ukraine on Moldova, in line with 5-year ahead projected changes. In addition, higher financing cost (high interest rate) is also projected to increase debt ratios. The increase in the external debt ratio relative to the five-year historical change is due mostly to exchange rate movements, other residuals, and developments

in the current account and FDI.[14] For the **total public debt**, the increase in the projected debt ratios to GDP in the medium term is driven mainly by the widening primary balance and exchange rate movements which more than offsets the negative contribution to debt from strong real GDP growth, whereas the decline compared to the five-year historical debt ratios was due to real exchange rate factors and resilient real GDP growth. The difference over 2021–22 between the baseline growth projections and growth projections implied by the standard fiscal multipliers in Figure 4, reflects the scarring impact of the COVID pandemic in some sectors of the economy and impact of the war in Ukraine on confidence in the economy in 2022. Growth is expected to rebound in 2023 to 2 percent and to hover at an average of 5 percent in the medium-term. The projected 3-year adjustment in the primary deficit is similar to observed in historical data from peers with Fund-supported programs (Figure 4) and is consistent with the authorities' commitment with continued fiscal consolidation.

6. Public investment and growth. The ECF/EFF-supported program aims at augmenting public investment with growth-enhancing structural reforms, including SOEs reform, and an improvement of the business environment. Both are expected to crowd-in and enhance domestic and foreign private investments in support of the higher projected growth trajectory over the medium term (Figure 4).

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

7. Moldova's debt carrying capacity is assessed to be strong, unchanged from the previous DSA. The composite indicator (CI), which captures the impact of several factors through a weighted average of an institutional indicator,[15] real GDP growth, remittances,[16] international reserves, and world growth, confirms that Moldova's debt carrying capacity is classified to be strong, which is unchanged from the previous two DSA rounds (Text Table 4).[17]

8. The DSA includes a stress test that follows standardized settings.[18] All the PPG external debt indicators remain below the policy relevant thresholds (Table 3 and Figure 1). The standardized stress test indicates a breach of public debt thresholds beyond 2028 (Table 4 and Figure 2). Moldova does not have prominent economic features such as significant reliance on commodity exports, market financing that would require additional tailored stress tests or other modules, nor severely affected by natural disasters. Regarding the contingent liability stress test, a shock of 12 percent of GDP is used. The

[14] The relatively large residuals in external financing mainly reflect a drawdown of reserves, caused by financing from the capital and financial accounts falling short of the current account deficit.
[15] The World Bank's Country Policy and Institutional Assessment (CPIA).
[16] Remittances for Moldova comprise of two Balance of Payments (BoP) accounts: compensation of employees and remittances.
[17] Moldova's Composite Indicator (CI) is 3.14, which corresponds to a strong debt-carrying capacity based on the IMF's October 2021 World Economic Outlook and World Bank's 2020 CPIA.
[18] The shock applied is Real GDP growth set to its historical average (10 years) minus one standard deviation, or the baseline projection minus one standard deviation, whichever is lower for the second and third years of the projection period.

severity of the shock was calibrated to the most recent domestic banking crisis event in 2016 that resulted in recapitalization of about 8.3 percent of GDP.

Text Table 4. Moldova: Debt Carrying Capacity and Applicable Thresholds

Debt Carrying Capacity and Thresholds

Country	Moldova
Country Code	**921**

Debt Carrying Capacity	**Strong**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Strong	Strong 3.14	Strong 3.11	Strong 3.23

Note: Until the April 2019 WEO vintage is released, the two previous vintages ago classification and corresponding score are based solely on the CPIA per the previous framework.

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

9. **Under the baseline scenario and alternative scenarios, all external debt indicators continue to remain below their policy-relevant thresholds (Table 1, Figure 1).** During 2022–27, new external financing will consist primarily of borrowing from multilateral and bilateral lenders, while commercial borrowing is expected to start playing a larger role in the long-term from 2032, reaching about 65 percent of total public sector borrowing by 2042. The present value of PPG external debt is projected at 16 percent of GDP in 2022, decreasing to 8.9 percent by 2032. The ratio will remain well below the 55 percent threshold under the baseline scenario throughout the projection period. Similarly, debt service indicators remain below their respective thresholds. Improvements in debt-management practices envisaged under the authorities' reforms supported by the ECF/EFF program will give further resilience to shocks affecting debt service needs. A tailored stress test for the contingent liability shock also does not cause any breach of

relevant thresholds. Under the most extreme scenario, most PPG debt indicators show increase in their values but remain well below their indicative thresholds. These outcomes hinge on continued prudent fiscal policy and sound macroeconomic and debt management policies envisaged under the ECF/EFF program.

10. **While the external risk rating is determined by the PPG external debt, large private external debt poses some potential rollover risks.** In the baseline scenario, private external debt to GDP ratio is expected to remain broadly stable at about 45 percent of GDP in 2022, but it is envisaged to decline to 43 percent of GDP by 2027, and trend lower to about 35 percent of GDP in 2032 supported by the strong real growth and by a larger contribution of FDIs and other non-debt creating flows to the current account financing. Potential rollover risks from a significant stock of private sector debt are partly mitigated by private sector savings abroad.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

11. **Under the baseline, the indicators of the overall public debt burden are below the benchmark threshold, but risks remain.** Under the baseline, the PV of total PPG debt-to-GDP ratio is projected to increase initially to 31.6 percent of GDP in 2022, from 26.9 percent of GDP in 2020, and is expected to stabilize below 35 percent of GDP over the medium-term, remaining below the 70 percent benchmark in the medium-to-long term (Figure 2).

12. **The ratio of PV of total PPG debt-to-GDP ratio exceeds its threshold under the real GDP growth shock**. Over the long-term, under the real GDP growth shock scenario it remains elevated, breaching the threshold starting from 2028, as the country accumulates higher debt to finance larger fiscal and current account deficits. Such a scenario highlights the risks to debt sustainability faced by the authorities in the absence of needed reforms. A significant contingent liabilities shock (to SOEs and PPPs and/or financial market distress) would also increase debt levels notably, though such risks are difficult to quantify accurately due to lack of quality data on SOEs and PPPs. The authorities' planned structural reforms underpinned by the ECF/EFF program are expected to improve revenues, increase spending efficiency, and boost growth, thereby mitigating further risk of unsustainable debt. As such, Moldova's overall debt trajectory is projected to remain sustainable despite the expansion in fiscal spending under the ECF/EFF program that is needed to achieve pressing developmental goals as well as to support the post-Covid recovery and provide economic and humanitarian assistance due to the war in Ukraine.

RISK RATING AND VULNERABILITIES

13. **Moldova's risk of external debt distress remains low but overall risk of debt distress has been reclassified to moderate, down from low risk in the previous DSA assessments.**

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

- **Moldova's overall public debt dynamics is also projected to remain on a sustainable path under the baseline scenario but remain subject to heightened vulnerabilities under the stress scenario.** Stress tests indicate that Moldova's debt sustainability is sensitive to the growth shock scenario.

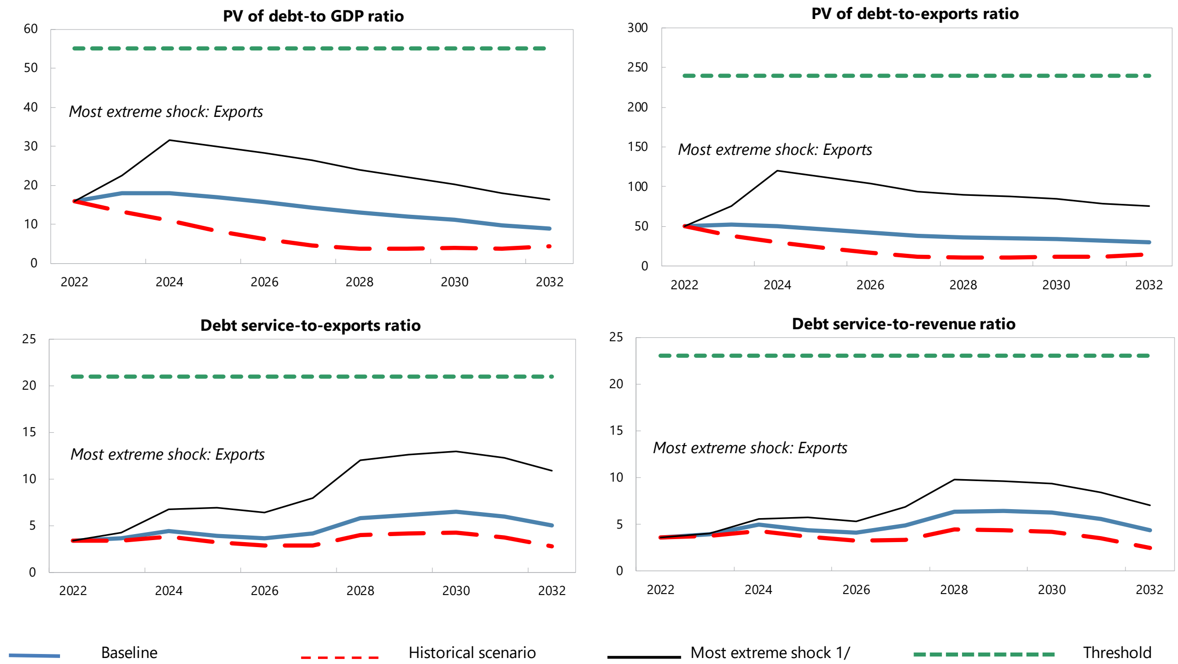
- **Risks to the debt outlook are tilted to the downside.** Given sensitivity of the debt projections to growth, adverse spillovers from a protracted war in Ukraine coupled with a potential resurgence of external and domestic containment measures linked to another wave of COVID-19 variant presents significant risk to the outlook on debt.

- **Mitigating debt risk requires sound macroeconomic management and sustained structural reforms**. The authorities should continue to maintain fiscal discipline and fiscal risk management. As the country is expected to accumulate significant debt to finance larger fiscal and current account deficits, strong and sustained political commitment is needed to deliver on fiscal policy with prudent deficit levels, revenue mobilization, and improved debt and fiscal risk management are imperative to safeguard Moldova's debt sustainability. In the near and medium-term, authorities should rely on concessional financing consistent with the ECF/EFF-supported program and further strengthen public investment management to finance priority projects with high growth and social returns. Contingent liability risks—including from SOEs—should be monitored carefully. Advancing structural reforms remain key to increasing the economy's growth potential, reducing vulnerability to shocks. Furthermore, development of the domestic debt market could further strengthen the outlook for debt sustainability, especially considering the expected transition of financing mix from concessional to commercial over the long term. As part of the ECF/EFF-supported program, steps will also be undertaken to strengthen debt and cash management to enable a broader range of longer maturity debt instruments to lengthen the maturity of domestic debt and deepen the secondary government securities market. Moldova will also seek to further strengthen debt management by developing domestic debt market and broaden secondary dealer system. These will help to reduce the PPG domestic debt roll-over and interest rate risks.

AUTHORITIES' VIEWS

14. **The authorities broadly agreed with the staff's assessment of Moldova's public debt situation and recommendations on debt management policy.** They broadly concurred with the staff's assessment of debt composition, projections, risk ratings and distress level. They recognize that maintaining fiscal discipline and managing fiscal risks is critical to ensure fiscal and debt sustainability. While they have been making progress on debt management and development of domestic debt market, they highlighted the need for further improvement in debt statistics and debt management frameworks by making full use of IMF technical assistance and training resources.

Figure 1. Moldova: Indicators of Public Guaranteed External Debt Under Alternative Scenarios, 2022–2032



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	Yes	No

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

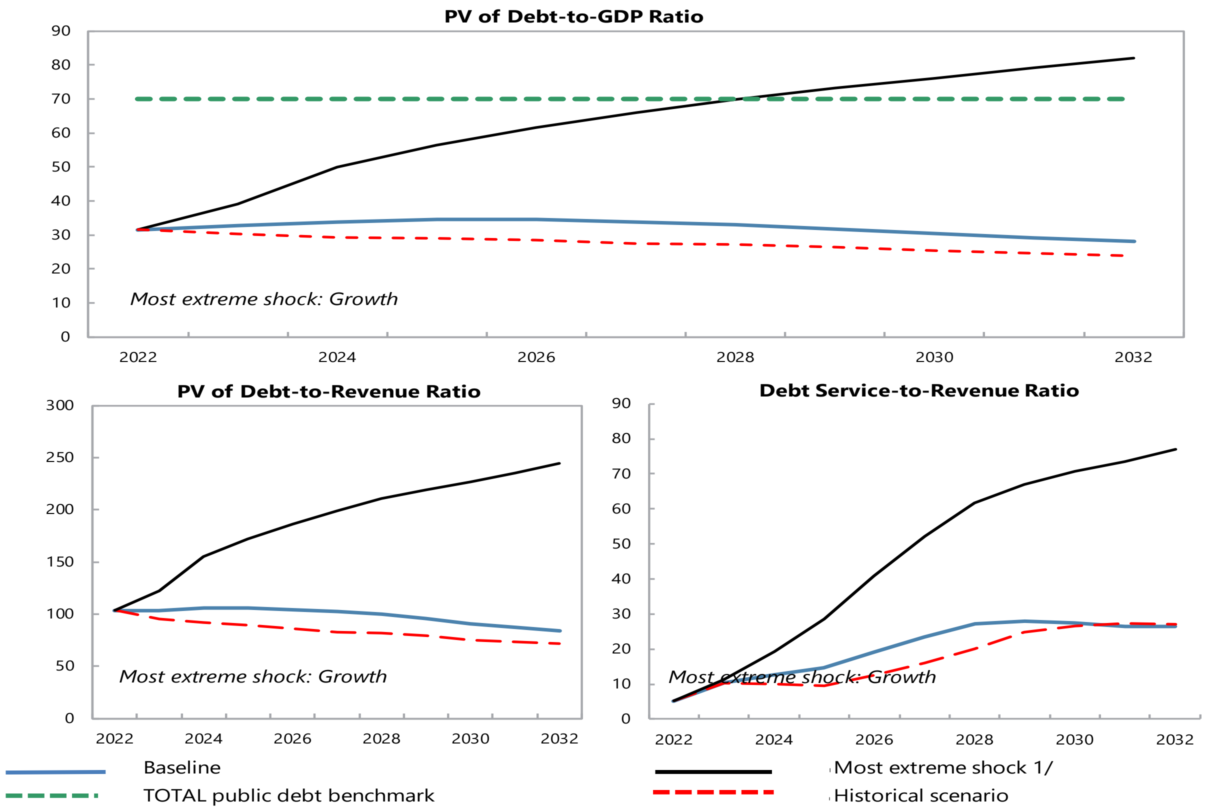
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	3	3

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Moldova: Indicators of Public Debt Under Alternative Scenarios, 2022–2032



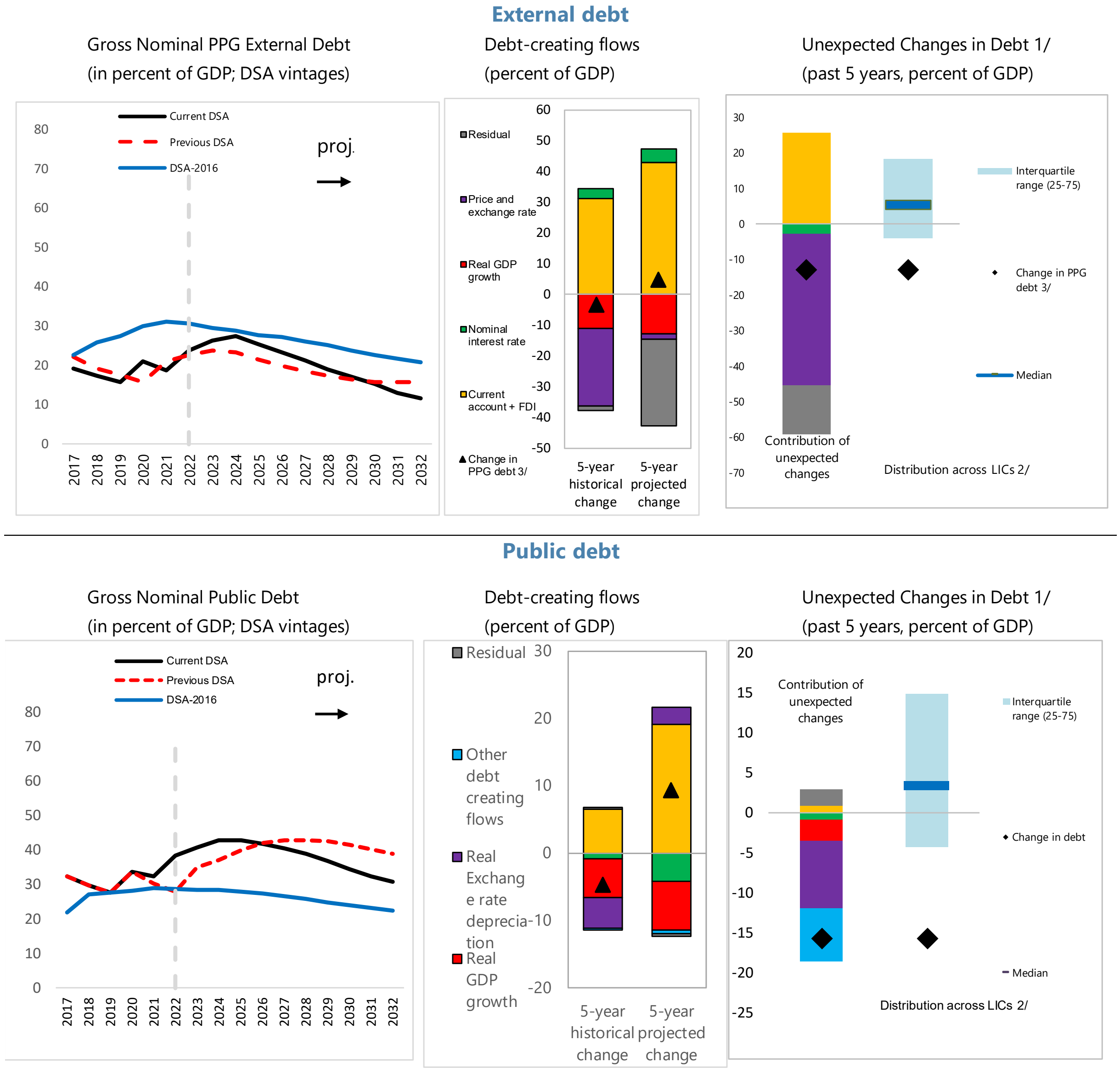
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	23%	23%
Domestic medium and long-term	39%	39%
Domestic short-term	38%	38%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	3	3
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.2%	0.2%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	-0.3%	-0.3%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Moldova: Drivers of Debt Dynamics – Baseline Scenario



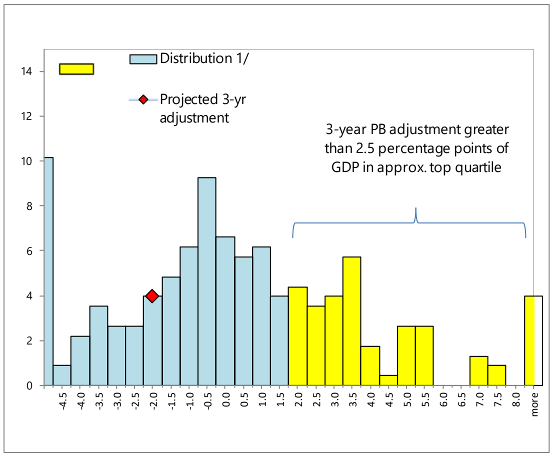
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

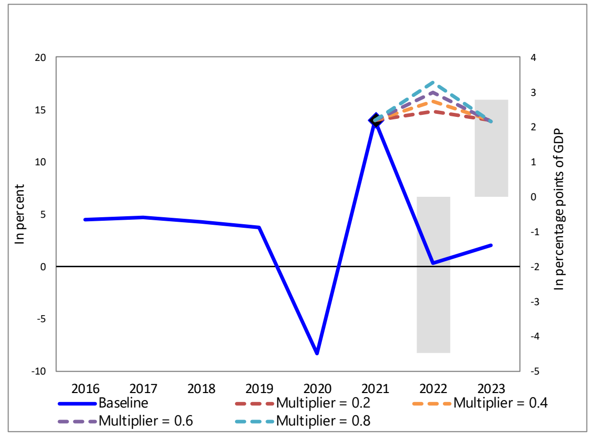
Figure 4. Moldova: Realism Tools

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



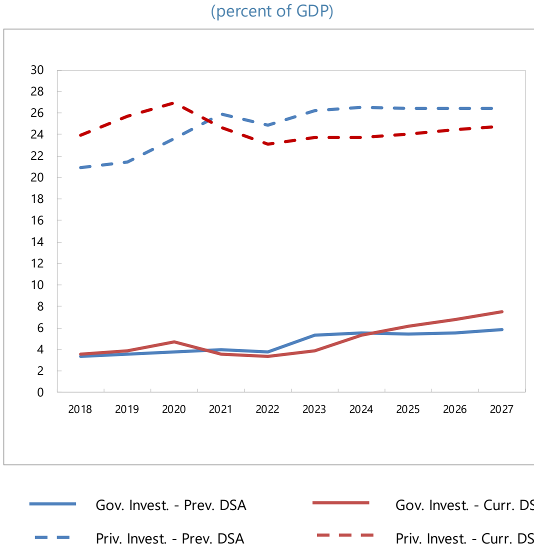
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

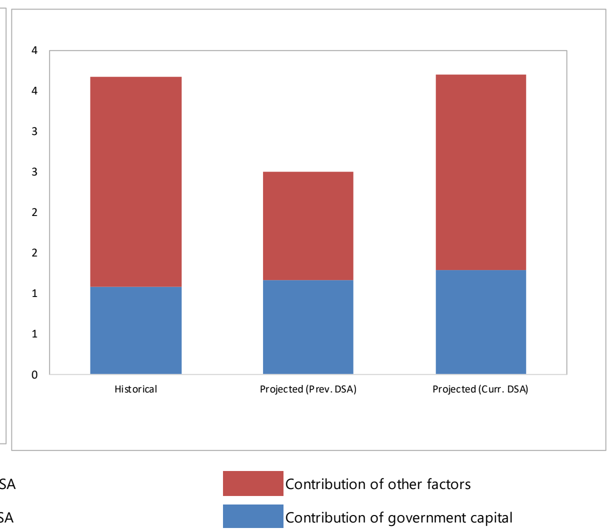


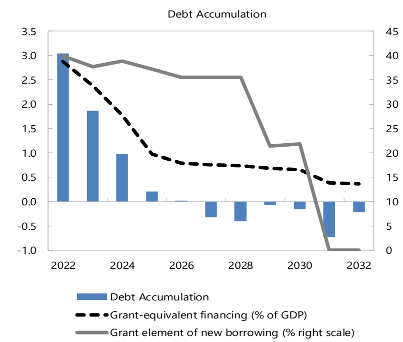
Table 1. Moldova: External Debt Sustainability Framework, Baseline Scenario, 2021–2042

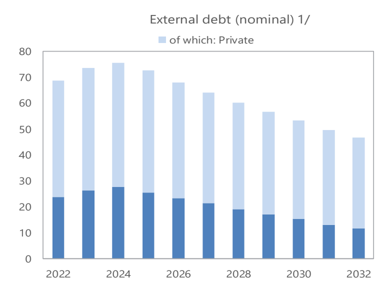
(in percent of GDP, unless otherwise indicated)

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	63.6	68.7	73.6	75.3	72.6	67.9	64.0	46.7	36.4	70.8	62.6
of which: public and publicly guaranteed (PPG)	18.7	23.7	26.2	27.5	25.4	23.3	21.4	11.6	10.4	19.7	20.3
Change in external debt	-9.9	5.1	4.9	1.8	-2.8	-4.6	-3.9	-2.8	-0.7		
Identified net debt-creating flows	-1.6	12.3	9.2	5.0	4.3	3.9	3.6	1.9	-0.2	2.2	4.5
Non-interest current account deficit	11.1	12.4	11.1	9.5	8.8	8.2	7.4	6.0	3.2	6.9	8.2
Deficit in balance of goods and services	27.3	29.9	30.0	28.9	27.4	26.1	25.1	19.3	11.3	26.9	25.0
Exports	30.7	31.7	34.2	35.7	36.2	36.8	37.9	29.1	17.1		
Imports	58.0	61.6	64.2	64.7	63.6	62.9	63.1	48.3	28.4		
Net current transfers (negative = inflow)	-12.9	-12.0	-12.4	-12.5	-11.9	-11.3	-11.0	-7.9	-4.0	-13.3	-10.6
of which: official	-0.4	-0.9	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4	-0.2		
Other current account flows (negative = net inflow)	-3.3	-5.6	-6.5	-7.0	-6.7	-6.6	-6.7	-5.4	-4.1	-6.7	-6.2
Net FDI (negative = inflow)	-1.7	-0.5	-1.5	-1.5	-1.6	-1.8	-1.8	-2.3	-2.3	-2.2	-1.8
Endogenous debt dynamics 2/	-10.9	0.4	-0.5	-2.9	-2.9	-2.5	-2.1	-1.8	-1.1	-2.4	-1.8
Contribution from nominal interest rate	0.6	0.6	0.9	1.1	0.8	0.9	1.1	0.5	0.6		
Contribution from real GDP growth	-8.6	-0.2	-1.4	-4.1	-3.8	-3.4	-3.2	-2.3	-1.7		
Contribution from price and exchange rate changes	-2.9	...	...	...	...	...	...	...	...		
Residual 3/	-8.3	-7.2	-4.3	-3.2	-7.1	-8.5	-7.4	-4.7	-0.5	-2.2	-6.1
of which: exceptional financing	-1.7	-2.2	-1.1	-0.6	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	13.1	16.0	17.9	18.0	16.9	15.7	14.3	8.9	10.0		
PV of PPG external debt-to-exports ratio	42.7	50.4	52.4	50.4	46.6	42.6	37.7	30.5	58.3		
PPG debt service-to-exports ratio	5.4	3.4	3.6	4.4	3.9	3.6	4.2	5.0	13.2		
PPG debt service-to-revenue ratio	5.3	3.6	4.0	5.0	4.4	4.1	4.9	4.4	6.8		
Gross external financing need (Million of U.S. dollars)	4674.6	4892.9	5013.8	5199.2	5547.7	5995.4	6165.1	7424.5	11902.5		
Key macroeconomic assumptions											
Real GDP growth (in percent)	13.9	0.3	2.0	5.8	5.4	5.0	5.0	5.0	5.0	3.6	4.4
GDP deflator in US dollar terms (change in percent)	4.1	0.7	-2.4	-0.9	2.6	2.5	2.3	1.9	1.9	1.9	1.3
Effective interest rate (percent) 4/	0.9	1.0	1.3	1.6	1.2	1.3	1.7	1.1	1.8	1.0	1.3
Growth of exports of G&S (US dollar terms, in percent)	30.3	4.3	7.5	9.5	9.5	9.5	10.6	1.5	1.5	5.2	5.3
Growth of imports of G&S (US dollar terms, in percent)	33.6	7.3	3.7	5.6	6.4	6.5	7.7	1.5	1.5	4.8	4.1
Grant element of new public sector borrowing (in percent)	...	39.8	37.7	38.8	37.2	35.5	35.5	0.0	0.0	...	27.6
Government revenues (excluding grants, in percent of GDP)	31.0	29.6	31.0	31.6	32.2	32.6	32.5	33.1	33.1	29.5	32.2
Aid flows (in Million of US dollars) 5/	272.2	397.7	329.4	235.5	220.2	225.9	234.8	91.2	107.8		
Grant-equivalent financing (in percent of GDP) 6/	...	2.9	2.4	1.8	1.0	0.8	0.8	0.4	0.2	...	1.1
Grant-equivalent financing (in percent of external financing) 6/	...	49.4	47.7	45.7	53.9	58.5	58.1	31.3	8.2	...	48.4
Nominal GDP (Million of US dollars)	13,672	13,811	13,752	14,412	15,590	16,779	18,020	25,319	49,988		
Nominal dollar GDP growth	18.6	1.0	-0.4	4.8	8.2	7.6	7.4	7.0	7.0	5.6	5.8
Memorandum items:											
PV of external debt 7/	57.9	60.9	65.3	65.9	64.0	60.3	57.0	44.0	35.9		
In percent of exports	188.7	192.3	190.8	184.3	176.8	163.7	150.2	151.4	210.3		
Total external debt service-to-exports ratio	69.5	71.3	69.9	70.2	69.5	70.0	66.0	75.7	116.2		
PV of PPG external debt (in Million of US dollars)	1790.5	2206.4	2464.0	2598.4	2628.6	2631.2	2576.7	2244.8	4982.5		
(PVt-PVt-1)/GDPt-1 (in percent)		3.0	1.9	1.0	0.2	0.0	-0.3	-0.2	0.7		
Non-interest current account deficit that stabilizes debt ratio	21.0	7.2	6.2	7.7	11.6	12.8	11.3	8.8	3.9		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

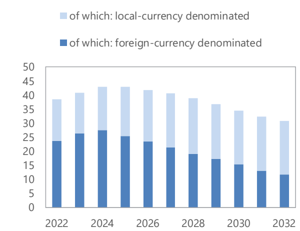
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

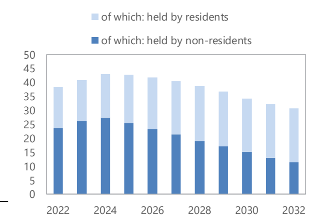
Table 2. Moldova: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–2042
(in percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	32.5	38.4	40.8	43.0	42.8	41.8	40.6	30.7	23.0	30.7	38.2
of which: external debt	18.7	23.7	26.2	27.5	25.4	23.3	21.4	11.6	10.4	19.7	20.3
Change in public sector debt	-1.3	5.9	2.4	2.1	-0.1	-1.0	-1.3	-1.6	-0.6		
Identified debt-creating flows	-3.1	5.7	2.4	2.1	-0.1	-0.3	-0.2	-0.9	-0.6	1.0	0.5
Primary deficit	1.8	6.3	3.5	3.8	3.0	2.5	2.1	0.9	0.5	1.2	2.5
Revenue and grants	32.0	30.6	31.8	32.1	32.7	33.0	33.0	33.5	33.3	30.6	32.7
of which: grants	1.0	0.9	0.8	0.4	0.5	0.5	0.5	0.4	0.2		
Primary (noninterest) expenditure	33.8	36.9	35.3	35.9	35.7	35.5	35.1	34.4	33.8	31.8	35.2
Automatic debt dynamics	-4.9	-0.4	-1.0	-1.7	-3.1	-2.7	-2.3	-1.8	-1.1		
Contribution from interest rate/growth differential	-5.0	-2.1	-1.3	-2.5	-2.9	-2.6	-2.3	-1.6	-0.9		
of which: contribution from average real interest rate	-0.9	-2.0	-0.6	-0.2	-0.7	-0.6	-0.3	-0.1	0.2		
of which: contribution from real GDP growth	-4.1	-0.1	-0.8	-2.2	-2.2	-2.0	-2.0	-1.5	-1.1		
Contribution from real exchange rate depreciation	0.2	1.7	0.3	0.8	-0.1	-0.1	-0.1	-0.2	-0.2		
Other identified debt-creating flows	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.8	-0.1
Privatization receipts (negative)	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.9	0.2	0.0	0.0	0.0	-0.7	-1.0	-0.7	0.0	-0.2	-0.7
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	26.9	31.6	32.9	33.8	34.6	34.5	33.8	28.2	22.8		
PV of public debt-to-revenue and grants ratio	84.1	103.4	103.4	105.5	105.9	104.4	102.3	84.2	68.5		
Debt service-to-revenue and grants ratio 3/	8.1	5.2	10.3	12.8	14.7	19.3	23.4	26.5	20.2		
Gross financing need 4/	4.4	7.7	6.7	7.9	7.8	8.8	9.8	9.7	7.2		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	13.9	0.3	2.0	5.8	5.4	5.0	5.0	5.0	5.0	3.6	4.4
Average nominal interest rate on external debt (in percent)	0.9	0.7	1.1	2.3	0.3	0.8	1.8	0.7	4.6	1.1	1.2
Average real interest rate on domestic debt (in percent)	-3.2	-9.5	-1.9	-1.9	-1.9	-1.6	-1.4	-0.7	-1.7	0.2	-2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	0.9	...	...	...	...	...	...	...	...	0.8	...
Inflation rate (GDP deflator, in percent)	6.3	12.7	6.0	5.5	5.5	5.5	5.5	5.0	5.0	5.8	6.0
Growth of real primary spending (deflated by GDP deflator, in percent)	7.5	9.4	-2.2	7.5	4.7	4.5	3.9	4.5	4.8	4.1	4.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.1	0.4	1.1	1.7	3.1	3.5	3.4	2.5	1.1	1.4	2.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Moldova: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–2032

(in percent)

	Projections 1/										
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
					PV of debt-to GDP ratio						
Baseline	16	18	18	17	16	14	13	12	11	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	16	13	11	8	6	5	4	4	4	4	4
B. Bound Tests											
B1. Real GDP growth	16	20	22	20	19	17	16	15	13	12	11
B2. Primary balance	16	18	19	18	17	15	14	13	12	11	10
B3. Exports	16	22	32	30	28	26	24	22	20	18	16
B4. Other flows 3/	16	20	23	22	20	19	17	16	14	13	11
B5. Depreciation	16	23	15	14	12	11	10	9	9	7	7
B6. Combination of B1-B5	16	24	24	22	21	19	17	16	15	13	12
C. Tailored Tests											
C1. Combined contingent liabilities	16	20	21	20	20	19	18	17	16	15	14
Threshold	55	55	55	55	55	55	55	55	55	55	55
					PV of debt-to-exports ratio						
Baseline	50	52	50	47	43	38	36	35	34	32	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	50	38	30	23	17	12	11	11	12	12	15
B. Bound Tests											
B1. Real GDP growth	50	52	50	47	43	38	36	35	34	32	30
B2. Primary balance	50	53	53	49	45	41	39	39	38	36	35
B3. Exports	50	76	120	112	104	94	90	88	85	79	76
B4. Other flows 3/	50	60	64	60	55	49	47	46	44	41	40
B5. Depreciation	50	52	33	30	26	22	21	21	21	19	18
B6. Combination of B1-B5	50	71	59	67	62	54	52	51	49	46	44
C. Tailored Tests											
C1. Combined contingent liabilities	50	59	59	56	54	50	49	50	50	49	49
Threshold	240	240	240	240	240	240	240	240	240	240	240
					Debt service-to-exports ratio						
Baseline	3	4	4	4	4	4	6	6	6	6	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	3	3	4	3	3	3	4	4	4	4	3
B. Bound Tests											
B1. Real GDP growth	3	4	4	4	4	4	6	6	6	6	5
B2. Primary balance	3	4	4	4	4	4	6	6	7	6	5
B3. Exports	3	4	7	7	6	8	12	13	13	12	11
B4. Other flows 3/	3	4	5	4	4	5	7	7	8	7	6
B5. Depreciation	3	4	4	3	3	4	4	5	5	5	4
B6. Combination of B1-B5	3	4	6	5	5	6	8	8	9	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	3	4	5	4	4	4	6	7	7	6	6
Threshold	21	21	21	21	21	21	21	21	21	21	21
					Debt service-to-revenue ratio						
Baseline	4	4	5	4	4	5	6	6	6	6	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	4	4	4	4	3	3	4	4	4	3	2
B. Bound Tests											
B1. Real GDP growth	4	4	6	5	5	6	8	8	8	7	5
B2. Primary balance	4	4	5	5	4	5	7	7	7	6	5
B3. Exports	4	4	6	6	5	7	10	10	9	8	7
B4. Other flows 3/	4	4	5	5	4	6	8	8	7	7	5
B5. Depreciation	4	5	6	5	4	6	6	6	6	5	4
B6. Combination of B1-B5	4	4	6	5	5	7	8	8	8	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	4	4	5	5	4	5	7	7	7	6	5
Threshold	23	23	23	23	23	23	23	23	23	23	23

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

Table 4. Moldova: Sensitivity Analysis for Key Indicators of Public Debt 2022–2032
(in percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	32	33	34	35	34	34	33	32	30	29	28
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	32	30	29	29	28	27	27	26	25	25	24
B. Bound Tests											
B1. Real GDP growth	32	39	50	56	62	66	70	**73**	**76**	**79**	**82**
B2. Primary balance	32	34	36	37	37	36	35	34	32	31	30
B3. Exports	32	37	46	47	46	45	43	41	39	37	35
B4. Other flows 3/	32	35	39	39	39	38	37	35	34	32	31
B5. Depreciation	32	32	32	32	31	29	28	26	24	22	20
B6. Combination of B1-B5	32	34	36	38	40	40	40	40	40	39	39
C. Tailored Tests											
C1. Combined contingent liabilities	32	44	45	45	44	43	42	40	38	37	35
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	103	103	105	106	104	102	100	96	91	87	84
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	103	95	92	89	86	83	82	79	75	73	71
B. Bound Tests											
B1. Real GDP growth	103	122	155	172	186	199	211	219	226	235	244
B2. Primary balance	103	107	114	113	111	109	106	102	96	93	89
B3. Exports	103	116	145	143	140	136	131	123	116	110	105
B4. Other flows 3/	103	111	121	121	119	116	112	107	101	96	92
B5. Depreciation	103	102	100	98	94	89	84	78	71	65	60
B6. Combination of B1-B5	103	106	113	118	120	121	122	120	118	117	117
C. Tailored Tests											
C1. Combined contingent liabilities	103	139	139	137	133	129	125	120	114	110	106
Debt Service-to-Revenue Ratio											
Baseline	5	10	13	15	19	23	27	28	27	27	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	5	10	10	10	12	16	20	25	27	27	27
B. Bound Tests											
B1. Real GDP growth	5	11	19	29	41	52	62	67	71	73	77
B2. Primary balance	5	10	14	18	22	26	29	30	29	28	28
B3. Exports	5	10	13	16	20	25	30	31	30	29	29
B4. Other flows 3/	5	10	13	15	20	24	28	29	29	28	27
B5. Depreciation	5	10	13	13	18	22	26	27	26	25	25
B6. Combination of B1-B5	5	10	14	17	23	29	34	36	36	36	37
C. Tailored Tests											
C1. Combined contingent liabilities	5	10	27	27	32	33	35	35	34	32	31

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Statement by Luc Dresse, Alternate Executive Director for the Republic of Moldova and Stijn Verhelst, Advisor to Executive Director
May 11, 2022

In December 2021, the IMF approved an Extended Credit Facility and Extended Fund Facility (ECF–EFF), which provided welcome support for Moldova's reform momentum amid energy price shocks and the COVID-19 pandemic. The macroeconomic framework underpinning the IMF program already took account of important risks to the Moldovan economy. Regrettably, many of these risks have materialized beyond expectations due to the Russian invasion of Ukraine on February 24. The ensuing crisis has strongly exacerbated multiple pressure points of the Moldovan economy, with a marked deterioration of economic and financial conditions, sharply increased food and energy prices, and a massive inflow of refugees. As a result, additional and more frontloaded balance of payments assistance is needed to bridge the crisis period and to make it possible to continue pursuing the country's reform and developmental agenda. **Given this context, and as explained in their Letter of Intent, Moldovan authorities have requested an ad-hoc review under the ECF arrangement and an augmentation and rephasing of access under the ECF-EFF arrangements.**

The Moldovan authorities wish to thank Mr. Atoyan, Mission Chief, Mr. Chawani, Resident Representative, and the entire team for the in-depth and constructive engagement. They thank the IMF in particular for its quick response in difficult circumstances, with a staff visit taking place only a couple of weeks after the start of the war in Ukraine. The authorities subscribe to the thrust of the Staff Report and reconfirm their strong commitment to sound policies and the objectives of the ECF-EFF program.

Context

The request by the authorities is to be seen in light of the war in Ukraine, which has come in addition to an already complex macroeconomic situation. High, volatile energy prices and the lingering pandemic seriously complicated the policy environment and led to accelerated inflation throughout 2021 and early 2022. The spillovers of the war in Ukraine have added to significant pressures in Moldova, due to the country's economic ties and proximity to Ukraine, Russia and Belarus.

The war in Ukraine has confronted Moldova with multiple shocks. Sizable trade and supply disruptions have occurred, which notably caused soaring food and energy prices. Financial conditions have deteriorated significantly because of the crisis, including substantial deposit withdrawals at its onset. There has been a cumulative influx of refugees the size of about 17 percent of the Moldovan population, which—in per capita terms—represents the largest influx of Ukrainian refugees into any country in Europe. The authorities and the people of Moldova have shown extraordinary solidarity with the refugees, offering food, shelter and other necessities. The country will continue to support refugees crossing into or remaining in the country. The escalation of these multiple shocks generates significant financing needs for Moldova and challenges social cohesion. The authorities project a balance-of-payment financing requirement of US$1.7 billion in the period 2022-2024.

While Moldova has entered the current crisis with good buffers, the multifaceted shocks will impact the country considerably going forward. The economy posted an impressive 13.9 percent growth in 2021. The general government deficit narrowed to 2.6 percent of GDP in 2021, while public debt remained low. The banking sector displayed robust governance and had large buffers in terms of capital and liquidity adequacy. The external position was supported by comfortable levels of international reserves. However, the crisis will significantly weaken near-term economic prospects. The economy is expected to stagnate in 2022, with growth projected at 0.3 percent compared to the pre-war forecast of 4.5 percent. Authorities agree with staff that the steep rises in energy prices and further increases in food inflation are expected to worsen the near-term inflation outlook. Inflation has reached 22.2 percent YoY in March 2022 and will

accelerate further above the central bank's target band. High inflation is projected to persist into the third quarter of 2022, easing gradually thereafter. As a result of the war and the other challenges, Moldova has experienced a deterioration of its external and fiscal accounts and an erosion of its reserve buffers.

Authorities agree with staff that adverse risks to the outlook remain significant. A sharper-than-anticipated increase in energy prices or disruptions in energy supply could further impair public and private balance sheets, while also causing additional inflationary pressure. Escalation of the war in Ukraine could hurt confidence, exert pressure on the Moldovan lei, undermine domestic securities markets, and could even culminate into system-wide deposit runs.

Under these complicated circumstances, the authorities request additional assistance to ensure macroeconomic stability and to allow them to continue their reform agenda. Additional resources from the IMF, other multilateral and bilateral partners and donors should help anchor confidence in the face of the negative shocks. The authorities share staff's stance on the importance of catalyzing additional financing commitments from external partners ahead of 2023 to support higher spending needs.
The authorities agree to set up reviews for end-June, end-September and end-December 2022, as the heightened uncertainty and pressing financing needs call for frequent monitoring of the IMF program.

<u>Authorities' responses to the crisis</u>

In response to the crisis from the Russian invasion of Ukraine, Moldova has approved a supplementary budget (prior action) in line with the macroeconomic framework and policy recommendations agreed with the IMF staff. The supplementary budget brings the general budget deficit to 7.2 percent of GDP subject to financing availability. The authorities restate their strong commitment to preserving debt sustainability, which remains a key anchor of the program. They also firmly commit to transparent budgeting, alongside the prioritization of the spending review and the strengthening of fiscal responsibility. The authorities will continue to provide social assistance support to protect the most vulnerable from increased domestic prices. At the same time, they will work to put in place a new modernized social assistance program with better-targeted support, thus addressing the past insufficient social spending issues.

The National Bank of Moldova (NBM) has moved swiftly with tightening measures to counter rising inflation and external pressures. After three consecutive 200 basis point increases since the beginning of the year, the base rate has reached 12.5 percent in April 2022. In early May 2022, the base rate was increased further to 15.5 percentage points. The reserve requirement ratio was also adjusted upwards. As a result of an increase in early May 2022, the reserve requirement will stand at 30 percent for Moldovan lei and non-convertible foreign currency assets, and at 33 percent for foreign currency. Given the exceptionally challenging market conditions, sizable interventions on the FX markets were furthermore made to limit excessive exchange rate volatility.

The NBM stands ready to continue tightening in order to contain potential spiraling inflationary pressures. In addition, a contingency package has been developed in case a materialization of severe downside risks threatens macroeconomic and financial stability. These measures would be used in combination with a broader macroeconomic adjustment package and in close consultation with IMF staff.

<u>Continuous commitment to reforms</u>

The authorities in Moldova wish to emphasize their strong and continued commitment to the program. Their adherence to the reform strategy anchored by the program remains unwavering, despite the current challenging environment. The authorities' first line of defense against the difficult outlook

remains the steadfast implementation of the Fund-supported reforms, which benefits from broad political support, in line with the mandate received in last year's elections.

Moldova has a strong track record that demonstrates its commitment to make the arrangements with the IMF a success. Since the approval of the program in December 2021, they have maintained close engagement with the Fund on policy developments on the ground. The authorities note their steady progress made on a wide range of commitments under the program, despite the recent adverse circumstances. The mixed performance against the indicative targets is attributable mainly to the impact of the war in Ukraine. As a result of the multiple shocks, inflation accelerated above the outer consultation band in March 2022, thus triggering a consultation with the IMF Executive Board.

Despite the complicated environment, the structural reform agenda is progressing apace, with all end-March structural benchmarks implemented. Moldovan authorities were able to complete the solvency assessment for insurance companies to support the migration to the Solvency II framework. They also successfully issued guidelines to all central government State-Owned Enterprises (SOEs) to submit standardized quarterly financial statements for 2019–2021 by end-April. The authorities have prepared a draft report on the execution of investment projects undertaken by extrabudgetary funds in 2021. They have successfully strengthened the law on prosecution service, albeit with a slight delay due to additional consultation needs with the Fund experts.

Looking forward, the authorities remain committed to a structural reform agenda that supports sustainable development. They are advancing with the implementation of several end-June structural benchmarks, including by developing an integrated taxpayers' register, performing a detailed tax expenditure analysis, enhancing the NBM autonomy and improving the macroprudential tools to address the borrowing risks. They also reaffirm the program objectives, pursuing a realistic timeframe to reach them. Beyond the immediate crisis, authorities' efforts will be directed towards a set of macro-critical policies and ambitious structural reforms that aim to bolster the rule of law, reduce corruption, strengthen fiscal and financial governance, facilitate external financing, and create a solid foundation for strong and inclusive growth. Furthermore, the authorities commit to implementing the two new structural benchmarks, i.e., the review of bank recovery and resolution legislation and the appointment of the new head of the Anti-Corruption Prosecution Office, leveraging the robust appointment framework based on the amended law on prosecution service.

The authorities will undertake a series of measures to further strengthen financial stability, also incorporating FSSR recommendations. These measures will aim at bolstering the country's financial crisis management and macroprudential frameworks, improving oversight of the non-bank sector, strengthening the regulatory framework for capital markets, developing a comprehensive national financial inclusion strategy and protecting the financial sector from illicit financial flows.

Reforming the State-Owned Enterprise sector remains a priority for the authorities. They are committed to improve SOEs' efficiency and to contain their fiscal risks. They will develop a state-ownership strategy to identify public enterprises that are to undergo reorganization, privatization or liquidation, as well as plans to strengthen SOEs' governance.

Strengthening the rule of law and addressing corruption remain critical priorities. Authorities will continue to modernize the judicial system in line with recommendations by international bodies. They are committed to enhancing the capacity and integrity of the prosecution service and tackling entrenched corruption.

Conclusion

The Moldovan authorities are convinced that the policies and measures outlined in the Memorandum of Economic and Financial Policies are appropriate to achieve the program objectives. Combined with additional financing from the IMF and other multilateral and bilateral financing sources, these policies and measures will be instrumental to face the current challenges. In line with the authorities' commitment to transparency, they authorize the IMF to publish the Letter of Intent, the Memorandum of Economic and Financial Policies, including attachments, and the staff report.

Authorities are committed to the program objectives despite the difficult environment. The authorities stand ready to take measures, as appropriate and in consultation with IMF staff, to achieve these objectives. They are mindful that additional responses will be needed if severe downside risks materialize, for which they have designed contingency measures.

The authorities thank the IMF for its continued support, together with other international partners. They look forward to close cooperation with the IMF throughout the program, including through technical assistance.