GUVERNUL
REPUBLICII MOLDOVA

GOVERNMENT
OF THE REPUBLIC OF MOLDOVA

Nr. 01-79-9558 Chişinău November 30, 2021

Letter of Intent

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

Dear Ms. Georgieva:

1. Our country has been hit hard by the COVID-19 pandemic. The depth and duration of the pandemic continue to strain efforts to mitigate the lingering economic and social effects. The emergence of a more contagious and lethal variant of the virus and the resumption of social mobility have pushed daily infections and fatalities to new highs. While the rollout of vaccinations has contributed to slowing down cases, coverage of vaccines remains low at only a quarter of the population. Since taking office in August 2021, we have been implementing policies to tackle the pandemic, providing policy clarity and direction after a period of political fragmentation.

2. After the deepest downturn in 2020, the economy is rebounding, but significant risks beset the outlook. Longstanding structural weaknesses, including the weak rule of law, entrenched poverty, social-economic vulnerability, rapid population aging, and emigration, impair the pursuit of developmental objectives. While we remain committed to progressively shift our policy focus towards mitigating the pandemic's long-term damage to our economy and securing a sustainable, inclusive, and more robust recovery, the unfolding energy crisis, new COVID-19 waves of infections, and long-standing weaknesses of domestic institutions could impede the reform momentum and amplify scarring effects. Against this challenging context, the government requests blended support in the cumulative amount of SDR 400 million (232 percent of quota) for a 40-month arrangement under the Extended Credit Facility and Extended Fund Facility to support our economic program from January 2022–May 2025. The support will bolster our reform agenda and help catalyze external financing.

3. We are recalibrating our policies to sustain the economic recovery and launch ambitious multi-year governance and institutional reforms. We stand ready to reverse imbalances accumulated in the last three decades. We have since developed a comprehensive package of prudent macroeconomic policies and structural reforms to create a solid foundation for long-term growth, while safeguarding debt sustainability. We commit to fortify fiscal governance and close significant developmental gaps with European peers. Our monetary and financial policies will strengthen policies and foster institutional independence, resilience, and good governance. We will improve the business environment by facilitating deregulation and competition. We have already taken significant strides to launch the fight against corruption, with future efforts to be guided by recommendations of the recent Country Governance Diagnostic assessment prepared together with the IMF. We underwent the

update safeguards assessment covering the central bank's governance and control frameworks before the negotiations.

4. The government believes that the solid policies and measures outlined in the attached Memorandum of Economic and Financial Policies (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.

5. 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,

N. Gavrilița

Natalia Gavrilița

Prime Minster

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

Octavian Armașu
Governor
National Bank of Moldova

D. Bud

Dumitru Budianschi
Minister of Finance

Sergiu Gaibu
Minister of Economy

Appendix I. Letter of Intent

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Attachment I. Memorandum of Economic and Financial Policies

I. Macroeconomic Developments and Outlook

1. **The COVID-19 pandemic has severely impacted the Moldovan economy.** Broad-based reforms under the 2016 IMF-supported program successfully restored macro-financial stability and strengthened the financial sector. However, after an average growth above 4 percent in 2016–19, economic activity contracted by 7 percent in 2020, held back by temporary restrictions, disruption of supply chains, and reduced global demand, as well as the impact of a severe drought. After a good start, vaccinations are progressing slowly with about only a quarter of the population fully inoculated, while the delta variant has driven an increase in infections.

2. **The economic recovery is taking root.**

- *Growth*. Real GDP is expected to grow by 7½ percent in 2021. With improved mobility, domestic demand rebounded strongly in 2021H1 (11 percent y/y), mainly on account of robust private consumption, supported by strong remittances and robust growth in wages and consumer credit.

- *Inflation*. CPI inflation has increased steadily throughout 2021, driven by accelerating core inflation, reflecting a recovery in domestic demand, as well as surging energy, commodity, and food prices on global markets. Inflationary pressures are expected to persist well into the next year.

- *Fiscal position*. Budget execution faltered through mid-2021 due to political volatility and uncertainties over external financing, resulting in suboptimal support for households and businesses. Coupled with the resumption of external financing, consistent revenue overperformance eased budget constraints and supported spending execution in the second half of the year, including on health, social assistance, and capital projects. In November, the parliament adopted a supplementary budget for 2021 to increase allocations for the health sector and unemployment support schemes, introduce energy subsidies to mitigate the impact of surging global natural gas prices, and reduce the VAT rate for the hospitality sector for the duration of the health emergency. Also, the minimum pension was increased to the subsistence level. The general government deficit is projected to reach 5 percent of GDP in 2021, and public debt is projected to increase to 34.4 percent of GDP.

- *External*. While the ongoing recovery and high commodity prices have worsened Moldova's external position, significant international reserves mitigate external vulnerabilities.

- *Monetary and financial policies*. Since the inception of the crisis, monetary policy was accommodative as the NBM cut its base rate by a cumulative 485 basis points and reduced MDL reserve requirements by 15 percentage points. Beginning July 2021, the NBM shifted to a tightening cycle and hiked the base rate by 285 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 NCFM issued guidance to lower effective interest rates and institute loan payments deferrals for non-bank financial institutions.

3. A strong recovery is expected in the medium term, but the outlook is subject to severe downside risks. The economic recovery is expected to be sustained over the medium term, supported by strong domestic and external demand and agreed reforms under the program. While inflation may temporarily exceed the upper band around the target, it is projected to revert towards the NBM target by end-2022. The current account deficit is expected to narrow significantly but would remain elevated at around 8 percent of GDP due to planned increases in developmental spending. However, adverse risks to the outlook remain significant, including from new infection outbreaks and virus variants, slower-than-expected recovery in trading partners, soaring energy prices, or reform fatigue.

II. Policy Framework for 2022–25

4. Significant developmental challenges have been exacerbated by the capture of state institutions and deeply entrenched corruption over the past decade, especially in the judiciary and law enforcement. These problems eroded institutional capacities and had a significant impact on the welfare of citizens, hindering income convergence with European peers. Structural constraints include weak rule of law and anti-corruption frameworks, entrenched poverty, inequality and socio-economic vulnerability, a shortage of well-paid jobs, poor and inaccessible infrastructure, significant exposure to climate change, weak education and health outcomes, and rapid population ageing and emigration.

5. Our program aims at sustaining the economic recovery, launching an ambitious governance and institutional reforms agenda, and addressing pressing developmental needs. Prudent macroeconomic policies and ambitious structural reforms to bolster the rule of law, reduce corruption, and strengthen fiscal and financial governance will help sustain the post-pandemic recovery, facilitate external financing, and create a solid foundation for sustainable and inclusive long-term growth while safeguarding debt sustainability.

A. Fiscal Policy: Sustain Recovery, Target Development, Strengthen Governance

6. Our near-term fiscal policy objective is to mitigate the impact of the ongoing pandemic and unfolding energy crisis. We approved the 2022 budget in line with the macro-framework agreed with the IMF staff to bring the general government deficit to 6 percent of GDP **(prior action).** In the **health sector**, we provided more funds (0.3 percent of GDP) to the Health Fund and regional hospitals to ensure adequate health capacity in the face of the pandemic. On

social protection, we allocated additional spending (0.3 percent of GDP) to services for children and disabled, while also increasing income tax credits for these categories; and raised minimum pensions to the subsistence level. To support **businesses**, we increased funding (0.4 percent of GDP) of a technical and partial unemployment subsidy scheme, approved higher transfers to the Agricultural Fund, and temporary reduced VAT rate for the hospitality sector. To mitigate the **impact of surging energy prices** (0.6 percent of GDP), we increased heating allowance for low-income households; and introduced a temporary targeted gas subsidy for households and businesses. In pursuit of our **developmental goals**, and building on improved execution capacity, we have increased our spending on infrastructure investment to 3.7 percent of GDP, (0.2 percent of GDP higher than in 2021). The deficit will be financed by funding from our development partners, notably the EU's macro-financial assistance, World Bank's development policy financing, the IMF, and from domestic sources.

7. Fiscal policy under the program will balance development spending with debt sustainability. Our fiscal stance under the program will be anchored by keeping total public debt below 45 percent of GDP to maintain 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 3½-4 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, and strengthen fiscal governance and transparency.

Reforms to Strengthen Revenue Mobilization

8. 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. 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, 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 will amend relevant legislation to reduce the legal threshold for determining smuggling as a criminal offence and raise administrative fines for such violations. We will amend the criminal code 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

9. 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, followed by a review for the agricultural sector in 2021, and plan to launch a spending review in the health sector in 2022. 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.

- **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

10. 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 by: (i) publishing a report on the execution of investment projects undertaken by extrabudgetary funds in the previous fiscal year (**end-March 2022 structural benchmark)**, with a requirement to update the report annually; and (ii) 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 extra budgetary 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. We will also launch a fully operational comprehensive IT-based staff registry, as a pilot, covering employees of the Ministry of Finance, the STS, the Customs Service, the Financial Inspectorate, and the Public Procurement Agency by end-2021. We will expand the coverage of a comprehensive IT-based staff registry to all central government employees (**end-June 2022 structural benchmark**). Based on these data analytics, we will develop a time-bound plan to further consolidate wage-related reference values.

- **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. To address these challenges, we raised the minimum pension by 68 percent to MDL 2,000 to align with the calculated subsistence level. We corrected the recent 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 (**prior action**). In consultation with the World Bank, we intend to modify the indexation formula and broaden the contribution base to address sustainability risks and ensure viable replacement ratios.

- **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 will strive 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) before the second review under the program.

- **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 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: Strengthen the Inflation Targeting (IT) Framework

11. The NBM's monetary policy stance will continue to be guided by the inflation outlook. Near-term risks to inflation are tilted to the upside. On the demand side, strong wages, consumer credit, and remittances will continue to contribute to the rising price level. On the supply side, volatile food and energy prices further complicate the NBM's policy response. The NBM stands ready to continue gradually tightening monetary policy stance to address building up demand pressures and second round effects from rising commodity prices on global markets.

12. The NBM is determined to continue strengthening the monetary transmission mechanism. Underdeveloped financial markets, high dollarization of the shadow economy, capital account restrictions, exposure to external shocks, and significant import dependence continue to impair the efficacy of the monetary transmission mechanism. Against this background, the NBM is committed to (i) continue strengthening the coordination of policies in its toolkit that affect monetary conditions with the NBM's base rate; (ii) develop robust frameworks for forecasting and managing liquidity conditions; (iii) continue normalizing reserve requirements to reduce funding costs and encourage de-dollarization; and (iv) strengthen communication of monetary policy actions to help anchor inflation expectations.

13. Moldova's vulnerability to external shocks requires having a flexible exchange rate as an effective shock absorber. The formal adoption of the foreign exchange intervention (FXI) strategy in 2020 has helped the NBM to limit its FXIs to reducing excessive exchange rate volatility on account of disorderly market conditions. In 2022, the NBM plans to review its intervention criteria under the FXI strategy to further foster exchange rate flexibility, thereby incentivizing appropriate risk pricing and facilitating development of hedging instruments.

C. Financial Sector Policy: Enhancing Resilience and Governance

14. We reaffirm our commitment to safeguard the NBM's independence. Amendments to the NBM Law during 2014–16 strengthened key legal safeguards, including its autonomy, governance framework, transparency, and accountably. To safeguard the NBM's financial autonomy, legal changes that would have resulted in cancellation of the law on issuance of state guaranteed bonds in place since 2016have been successfully challenged in the Constitutional Court. We are fully committed to protecting the independence of the NBM to ensure that it effectively executes its functions and delivers on its fundamental objective of ensuring and maintaining price stability, promoting and maintaining a financial system based on market principles, and supporting the economic policy of the country. Towards this objective, the Executive Board of the NBM has been strengthened by filling the vacant deputy governor positions in line with professional, integrity, and procedural requirements of the NBM Law **(prior action).**

15. We have also taken steps to strengthen the integrity and finality of NBM's regulatory and supervisory decisions. Specifically, we have enacted, in consultation with IMF staff, as a ***prior***

action, a legislative package that amended the NBM Law, the Law on Banks' Activity, and procedural codes to make the following urgent enhancements:

- ***Shareholder removal framework.*** To achieve effective enforcement of the supervisory decisions aimed at removing unfit shareholders, we have amended the procedural codes to preclude that interim measures in legal proceedings can impede supervisory measures applied to unfit shareholders, including to those acting in concert (such as, inter alia, suspension or any other encumberment of shareholder rights, share cancellation, and share sale).

- ***Monetary compensation regime***. To ensure fair compensation for proven damages to shareholders, we have amended the Law on Banks' Activity to introduce a framework on the determination of damages for justified claims, which will be determined based on the appraisal of value of shares by an internationally reputable audit company appointed by the appropriate court in cases of bank liquidation, resolution, and shareholder removal decisions.

- ***NBM autonomy and accountability safeguards***. To ensure adequate legal protection for the prudential supervisor commensurate with the NBM's public policy mandate we have amended the NBM Law to (i) to further clarify the standard for the liability of NBM officials and staff to strengthen their legal protection against lawsuits, and (ii) detail the rules applicable to the legal review of prudential supervisory decisions ensuring an appropriate deference to NBM administrative discretion and professional judgement.

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 will 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 are resolute in our efforts to ensure transparency of shareholders and beneficial owners and to complete fit and proper ownership and control in one non-systemic bank. However, implementation of steps prescribed by the shareholder removal legal framework were suspended. Based on the strengthened framework for the finality of supervisory decisions, the NBM will take all necessary steps prescribed by the shareholder removal legal framework to complete fit-and-proper ownership and control in this bank while also ensuring proper corporate governance 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, we will prepare a targeted review of the BRRL and the relevant secondary legislation, including to strengthen the MREL requirement, the conditions of access to the resolution fund, and the participation of the DGF in the financing of the resolution measures. 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 advance preparations for the reimbursement of deposits, 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 strengthening the regulatory and supervisory frameworks for the non-bank financial sector. We amended relevant legislation (**prior action**) 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 have appointed new members of executive board for the NCFM with a view to enhance oversight of the non-bank financial sector, manage the transfer of responsibilities, and facilitate the capital market development. We are enhancing intra-agency 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. We will strengthen the law on non-bank credit institutions to facilitate responsible lending by including provisions for due diligence on debtors' repayment capacity and collateralization levels.

22. We will prioritize reforms in the insurance sector. Supervisory decisions continue to be challenged in courts including by insolvent companies. Against this background, we remain committed to approve the following Laws that were developed with support from the World Bank by June 2022: (i) Law 186 to safeguard the NCFMs autonomy, ensure market discipline, and prevent fraudulent players from operating in the market; (ii) Law on Insurance and Reinsurance activity establishing new requirements for capital compliance, corporate governance, and risk management; and (iii) Law on Motor Third Party Liability Insurance. Going forward, we will finalize the comprehensive solvency assessment report by a reputable auditing firm for all insurers issuing green cards based on end-December 2020 data (**end-March 2022 structural benchmark**). We will develop and implement resolution strategies for all insolvent insurers to safeguard assets and transfer healthy parts of their operations and customer bases to viable companies.

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 2020–2025 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. We are determined to launch comprehensive SOE reforms. 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. Reforms will focus on enhancing oversight capacity and coverage, strengthen financial reporting and assessment, improve monitoring and managing of fiscal costs and risks, as well as transparency, accountability, disclosure and controls. As a starting point, to enhance oversight capacity and fiscal risk monitoring, the Public Property Agency will require 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. 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 will continue to improve transparency and good governance in the energy sector. Moldova has transposed the Third Energy Package in both the electricity and gas sectors. We are fully committed to ensure independence of the energy regulator, in line with relevant EU directives (Directive 2009/72/EC and Directive 2009/73/EC). While the unfolding severe energy crisis in Europe has introduced additional headwinds, we are committed to move ahead with an ambitious reform agenda to open the energy sector to market competition. These reforms are critical to bolster Moldova's energy security.

- The current price spike requires a rapid and transparent response to address the immediate impacts on consumers and businesses. To this end, we plan to (i) transparently reflect increased costs of gas imports in the tariff; (ii) provide direct budgetary emergency support for energy-poor consumers in the form of partial bill payments, with the subsidized portion of the utility bill progressively reduced for larger gas consumers; and (iii) if needed, ensure energy security by transparently allocating state resources to the energy market operator. We will continue leveraging existing well-targeted social assistance programs to protect the most vulnerable populations.

- In the gas sector, in agreement with the Energy Community Secretariat, ANRE will issue the final certification for the unbundled gas Transmission System Operator (TSO), Moldovatransgaz, in 2022.

- In the electricity sector, in consultation with the Energy Community Secretariat, ANRE will issue the final certification for the unbundled electricity TSO, Moldelectrica, by end-August 2022. Towards this objective, we will also complete legislative and regulatory frameworks towards full unbundling of the electricity sector by end-2021. We will also ensure that the 2020 Wholesale Electricity Market Rules (including a functioning balancing mechanism for electricity exchanges) enter into force no later than January 1, 2022. The competent authorities will adopt the necessary by-laws on energy efficiency obligation schemes, energy audits, and the long-term building renovation strategy to promote energy efficiency.

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 to be approved by end-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, we plan to carry out an extraordinary assessment of the judicial sector based on a transparent process, formulated in consultation with relevant international bodies. We will 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 (**prior action**). 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 will 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, we will improve the selection process for the head of the Anti-Corruption Prosecution Office (APO) by amending the relevant legislation **(end-March 2*022 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. At least half of the commission's members will be respected experts with recognized ethical standards and experience in anticorruption prosecution, including with relevant experience in other countries. The commission will also include representatives of civil society, with appropriate experience or a record of advocacy in corruption cases. 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 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 program will be monitored through semi-annual reviews, prior actions, quantitative and performance criteria, indicative targets, structural benchmarks, and an inflation consultation clause. 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 November 30, 2021. The prior actions, along with proposed structural benchmarks, are set out in Table 2.

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

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

	2020	2021		2022			
	December Actual	June Actual	December Proj.	March [1/] Prog. Target	June Prog. Target	September [1/] Prog. Target	December Prog. Target
1. Quantitative performance criteria [1/]							
Ceiling on the cash deficit of the general government	10,620	3,447	12,076	1,705	5,876	8,499	15,336
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) [2/]	3,407	3,411	3,640	3,447	3,269	3,417	3,540
2. Continuous performance criteria							
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)			0	0	0	0	0
3. Indicative targets							
Ceiling on the general government wage bill	17,214	9,702	18,720	4,900	10,739	15,356	20,720
Floor on targeted social spending undertaken by the general government [3/]	1,164	641	1,316	835	877	1,146	1,499
o/w on heating allowance	479	439	555	525	652	700	820
o/w on Ajutor Social	628	187	702	268	136	324	511
o/w on support for unemployment	57	14	60	42	89	122	168
Floor on developmental spending undertaken by the general government [4/]	27,904	28,542	34,056	5,976	13,697	20,390	28,958
4. Inflation Consultation Bands (in percent)							
Outer Band (upper limit)				7.0	7.0	7.0	7.0
Inner Band (upper limit)				6.5	6.5	6.5	6.5
Center point	0.9	3.2	4.9	5.0	5.0	5.0	5.0
Inner Band (lower limit)				3.5	3.5	3.5	3.5
Outer Band (lower limit)				3.0	3.0	3.0	3.0

1/ Indicative targets for March and September.
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 6.0 percent of GDP, update spending priorities, and reflect the agreed financing strategy (MEFP ¶6).	Support macroeconomic recovery and mitigate impact of the pandemic		Met
2	Amend the NBM Law, the Law on Banks' Activity, and procedural codes to strengthen: (i) the bank shareholder removal framework; (ii) monetary compensation regime; and (iii) safeguards to the NBM's autonomy and accountability (MEFP ¶15).	Strengthen the integrity and finality of NBM's regulatory and supervisory decisions		Met
3	The NBM to fill the vacant deputy governor positions in its Executive Board in line with professional, integrity, and procedural requirements of the NBM Law (MEFP ¶14).	Ensure the normal functioning, and decision-making capacity of the NBM Executive Board		Met
4	Amend relevant legislation to transfer regulatory and supervisory responsibilities for oversight of non-bank credit organizations, savings and lending associations, and insurance companies to the NBM effective July 1, 2023 (MEFP ¶21).	Strengthen regulatory and supervisory frameworks		Met
5	Amend the Criminal Code to ensure that the main corruption offences and all instances of money laundering are classified as serious offences (MEFP ¶30).	Strengthen enforcement of the anti-corruption legal framework		Met
6	Repeal the law reducing the retirement age for men and women from 63 to 62 years and from 59 to 57 years, respectively (MEFP ¶10).	To address policy reversal and strengthen sustainability of the pension system		Met
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 (MEFP ¶31).	Strengthen anti-corruption institutions	end-March 2022	
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 (MEFP ¶31).	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 (MEFP ¶30).	Strengthen enforcement of the anti-corruption legal framework	end-December 2022	
Fiscal Governance				
4	Publish a comprehensive tax expenditure analysis of VAT and income taxes to identify tax relief provisions to be phased out (MEFP ¶8).	Support fiscal consolidation and eliminate inefficiencies and inequities of the tax system	end-June 2022	
5	Publish a report on the execution of investment projects undertaken by extrabudgetary funds in the previous fiscal year (MEFP ¶10).	Strengthen the public investment management framework	end-March 2022	
6	Operationalize the integrated taxpayer register (MEFP ¶8).	Strengthen tax administration	end-June 2022	
7	Expand the coverage of a comprehensive IT-based staff registry to all central government employees (MEFP ¶10).	Strengthen the unitary pay system in the budgetary sector	end-June 2022	
8	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 (MEFP ¶10).	Strengthen the public investment management framework	end-September 2022	
Financial Sector Oversight				
9	Finalize the comprehensive solvency assessment report by a reputable auditing firm for all insurers issuing green cards based on end-December 2020 data. (MEFP ¶22).	Rehabilitate the insurance sector	end-March 2022	
10	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. (MEFP ¶16).	Strengthen the institutional autonomy and governance of the NBM	end-June 2022	
11	NBM to approve secondary ELA regulations to enhance rules for collateral eligibility, risk controls, and internal procedures (MEFP ¶20).	Strengthen financial safety net	end-June 2022	
SOE and Regulatory Framework Reforms				
12	The Public Property Agency to require all SOEs at the central government level to submit quarterly financial statements (MEFP ¶25).	Enhance oversight capacity over the SOE sector and strengthen fiscal risk monitoring	end-March 2022	
13	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 (MEFP ¶25).	Improve SOE governance and reduce fiscal risks	end-September 2022	

Attachment II. Technical Memorandum of Understanding

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

A. Quantitative Program Targets

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

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

Indicative targets are set on:

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

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

B. Program Assumptions

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

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

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

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

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

C. Institutional Definitions

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

D. Program Definitions

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

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

[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.

deposits in counterparts with a minimum rating of A-.[3] Excluded from reserve assets are capital subscriptions to foreign financial institutions, long-term non-financial assets, funds disbursed by 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

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[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).

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

domestic credit of the banking system shall be measured from below the line and as of September 30, 2021 amounted to MDL 8479.3 million.

9. The ceiling on the cash deficit of the general government is defined, as the sum of net credit of the banking system to the general government (as defined in paragraph 7), the general government's net placement of securities outside the banking system, other net credit from the 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), and the heating allowance (9015/00322) during the cold season from the central government budget.

16. **Developmental spending undertaken by the general government** is defined as the sum of total capital spending envelope 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

[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.

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 is specified as +/- 2 percentage point around the central point. Deviations from the bands would trigger a consultation with the staff or Executive Board which would focus on: (i) a broad-based assessment of the stance of monetary policy and whether the Fund-supported program is still on track; and (ii) the reasons for program deviations, taking into account compensating factors and proposed remedial actions if deemed necessary.

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	
	Jun	Sep	Dec	Mar	Jun
Outer Band (upper limit)	7.0	7.0	7.0	7.0	7.0
Inner Band (upper limit)	6.5	6.5	6.5	6.5	6.5
Center Point	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Inner Band (lower limit)	3.5	3.5	3.5	3.5	3.5
Outer Band (lower limit)	3.0	3.0	3.0	3.0	3.0

F. Adjusters

19. The adjusters set in this TMU apply for assessing compliance with the program's quantitative targets starting from end-December 2021.

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$66.7 million and US$262.8 million respectively, in 2022, valued at the program exchange rates.

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

	2021	2022			
	December	March 1/	June	September 1/	December
	Proj.	Prog. Target	Prog. Target	Prog. Target	Prog. Target
Programmed external financing flows to adjust the floor on the NIR target (US$ million)	384	43	89	134	329
Programmed external financing flows to adjust the ceiling on the cash deficit (MDL million)	6,865	807	1,663	2,506	6,194

1/ Indicative targets for March and September.

G. Reporting Requirements

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

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

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

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

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

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

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