Letter of Intent

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

Chişinău, February 28, 2020

Dear Ms. Georgieva:

Our economic program, supported by the Fund's Extended Fund Facility and Extended Credit Facility Arrangements approved by the IMF Executive Board on November 7, 2016, has been largely successful in achieving its key objectives. Notwithstanding a volatile political landscape with the course of the program stretching over tenures of three different governments and several electoral campaigns, Moldova has made significant progress in reducing long-standing financial sector vulnerabilities, stabilizing macro-economic conditions, and reviving economic growth. This has been made possible by the broad political support for reforms ultimately aimed at strengthening governance and improving living standards of Moldova's people.

For the final review of the program, we met all quantitative performance criteria and implemented four out of five structural benchmarks, albeit some with delays. We are taking decisive steps to complete the rehabilitation of the financial sector, maintain long-term sustainability of our fiscal policy, and strengthen our institutional frameworks:

- In the **financial sector**, we concluded the transfer of control of all three systemic banks to fit-and-proper investors and took irreversible actions to remove unfit shareholders in domestic non-systemic banks. Going forward, we will focus on mitigating risks arising from the non-bank financial sector and strengthening our AML/CFT regime.

- Our **fiscal policy** will ensure a sustainable growth-friendly approach in line with our development objectives. Our near-term priorities include broadening the revenue base, strengthening tax administration and tax compliance, enhancing public investment management, and improving spending efficiency.

- We will continue strengthening the NBM's **monetary policy framework**, guided by its inflation targeting regime and underpinned by exchange rate flexibility. We will refrain from any initiative that would undermine the NBM's institutional and policy independence.

- We are committed to step up efforts to **recover assets** stolen in the 2014 bank fraud. We recognize the critical importance of demonstrating a strong track-record of combating corruption, prosecuting perpetrators of the banking fraud, and recovering stolen assets.

- In the **energy sector**, our medium-term objective is to ensure energy security and facilitate the development of a transparent and competitive market. Towards this objective, we are committed to resolve accumulated debts within the gas sector and instill transparent and automatic utility tariff policy, coupled with appropriate social safety net safeguards for the vulnerable population.

Based on our performance to date, our fulfillment of the prior actions, and policy commitments outlined in the attached Supplementary MEFP, we request the completion of the sixth and final review under the Extended Credit Facility and Extended Fund Facility arrangements. We trust that the policies set out in the attached memorandum are satisfactory to advance objectives of our economic program. We remain strongly committed to preserve the gains achieved under the program and will consult with the Fund on any revisions to the policies contained in the attached SMEFP. We will provide information requested by the Fund to assess implementation of the program. Maintaining our commitment to the policy of transparency, we consent to the publication of this letter, the attached SMEFP, and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

_________/s/_____________
Ion Chicu
Prime Minister, Government
of the Republic of Moldova

_________/s/_____________
Anatol Usatîi
Minister of Economy
and Infrastructure

_________/s/_____________
Serghei Pușcuța
Minister of Finance
Vice-Prime Minister

_________/s/_____________
Octavian Armaşu
Governor
National Bank of Moldova

Attachments: Supplementary Memorandum of Economic and Financial Policies

Attachment I. Supplementary Memorandum of Economic and Financial Policies

I. Recent Developments and Outlook

1. **Our reform program, supported by the ECF/EFF arrangements, has been successful in restoring macro-financial stability, reviving economic growth, and improving financial sector governance.** We are taking decisive steps to complete the reform agenda set out in this memorandum for the remainder of the arrangement. Notwithstanding the changes in governments in 2019, this program retains strong and broad-based political support.

2. **Economic growth has been better than expected.** Real GDP growth is estimated to have strengthened to 4.2 percent in 2019, reflecting robust domestic demand. Inflation accelerated to 7.5 percent in December 2019, above the upper bound around the inflation target, largely driven by food prices. The current account deficit is estimated to have narrowed to 9.5 percent of GDP due to moderation of energy import prices. Despite heightened political uncertainty, the leu remained broadly stable in 2019 and the NBM reduced its footprint in the foreign exchange market in the second half of the year. International reserves provide adequate buffers against external volatility and remain fully in line with program's targets.

3. **The 2019 fiscal balance overperformed program targets.** Weaker than projected tax revenue outturn was more than offset by under-execution of capital spending and our efforts to contain current expenditures. Public and publicly guaranteed debt is estimated to have remained low at below 30 percent of GDP.

4. **Our banking sector reforms are paying off.** Financial soundness indicators indicate ample capital and liquidity buffers, and profitability across the whole sector. Asset quality ratios continued to improve, with share of NPLs falling to 8.5 percent in December 2019 (from its peak level of 18.5 percent in November 2017), while loss provisions cover 65 percent of non-performing loans. Credit risk exposures to related parties are well within prudential limits. Notably, after years of stagnation, bank lending activity has registered double-digit growth throughout 2019, contributing to economic growth.

5. **We expect a cautiously positive medium-term economic outlook, but significant risks remain**. The program has helped to improve confidence and facilitate access to external financial support. Prudent macroeconomic policies and our planned efforts to boost public infrastructure are

expected to underpin growth, which is forecast at 3.8 percent in 2020 and around 4 percent thereafter. CPI inflation is expected to return to the band around the NBM's target in 2020H1 and remain close to the target of 5 percent throughout the medium term. This broadly positive outlook, however, could come under pressure from the resurrection of political instability, which could hurt confidence and limit external financing options, while regional and global spillovers from a protracted slowdown in major trading partners cannot be ruled out.

II. Policy Framework

A. Financial Sector Policies

6. Safeguarding central bank independence and strong and effective financial sector supervision is our key priority. Strengthened NBM governance structure and independence have been critical for our success in addressing major banking sector vulnerabilities in the aftermath of the 2014 banking fraud. In this context:

- We remain committed to protect the NBM's statutory safeguards on autonomous operations in relation to public authorities, robust rules governing NBM management appointment and dismissal, and sound accountability and transparency frameworks.

- We will, in consultation with the IMF, introduce a more structured profit-sharing mechanism to improve public perception of the NBM and its role in the economy, while also protecting the NBM's policy solvency and capital adequacy. Specifically, we will amend the NBM Act to (i) introduce a requirement for mandatory, immediate, and single-injection recapitalization with marketable securities by the Ministry of Finance when the NBM's capital falls below 4 percent (lower bound) of monetary liabilities, (ii) provide for a 50/50 percent sharing of realized NBM profits between the state budget and the NBM capital when the capital is between 4 percent (lower bound) and 10 percent (upper bound) of monetary liabilities, and (iii) provide for 100 percent realized profit distribution to the state budget when the NBM's capital exceeds 10 percent (upper bound) of monetary liabilities. We plan to apply the new profit-sharing mechanism based on the 2019 realized profits.

- By end March-2020, 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 bank supervision as has been set by the 2019 amendments to the Administrative Code.

7. **We have taken actions to improve the robustness and clarity of the shareholder removal framework.** Specifically, the parliament approved an legislative interpretation of the Law on Bank Activity governing the removal of unfit shareholders to clarify that the (treasury) buy-back of new shares can only occur after the final retail stage at the reduced market price to ensure minimum impact on the bank's capital (**prior action**).

8. **Quality and transparency of bank shareholders is the cornerstone of sound bank corporate governance and our top priority**. Moldova's banking sector has transformed in the course of the IMF-supported program. Strong and impartial application of our robust evaluation framework underpins the quality assessment of current and future shareholders. Following decisive measures taken by the National Bank of Moldova against unfit shareholders, currently more than 90 percent of banking assets are managed by internationally reputable financial groups. Recent measures include:

- **Moldindconbank:** In November 2019, following a thorough evaluation, the NBM approved 5 out of 7 members of the Supervisory Board, while two additional members are undergoing due diligence. In February 2020, the NBM approved a reputable Executive Board, which provided solid basis for the bank's exit from temporary administration (**structural benchmark, end-December 2019**). The near-term supervisory priority will be given to rigorous monitoring of operational changeover, upgrading internal systems and controls, prudential compliance, and related-party exposures and cross-border transactions. Our supervisory powers, such as dividend payout restrictions, will be exercised based on the existing regulation and supervisory judgement.

- **Domestic non-systemic banks:** In the two non-systemic banks, newly issued shares replacing those held by unfit shareholders were put up for sale at the stock exchange. The NBM will continue overseeing banks implementing steps prescribed by the shareholder removal legal framework—including the sequential share price reduction mechanism—for the issued shares with a view to attract sound investors, safeguard the banks' capital, and ensure fit-and-proper qualifications of its shareholders and managers. The Constitutional Court confirmed the applicability of the NBM's supervisory decisions in the interim period before the final court ruling on the validity of NBM's concerted action decisions with regard to unfit shareholders.

9. **We made further advances towards full implementation of an effective regulatory and supervisory framework, prioritizing internal governance, risk management, and Internal Capital Adequacy Assessment Process (ICAAP)**. Our efforts have focused on fostering compliance of banks' activity with prudential requirements and ensuring a qualitative error-free reporting,

including in the process of continued exhaustive harmonization of the secondary legislation with the CRD IV/ CRR, as per our Banking Law. We have improved the supervisory regime through the implementation of ICAAP and we have, under the Supervisory Review and Evaluation Process (SREP), begun to include qualitative factors in each bank's ICAAP and have notified banks of deficiencies in their ICAAP submissions. The implementation of our bank reform plan is continuing, with 17 out of 29 pieces of secondary legislation in force, eight pieces passed public review, and four pieces still subject to public review. Adoption of all 29 pieces of secondary legislation is expected by end-2020. With the NBM's confidentiality regime positively assessed by the European Banking Authority, we have joined the Memorandum of Cooperation signed between the European Banking Authority and six supervisory authorities of South-Eastern European countries, while additional MoUs are being discussed with the ECB and two other European central banks.

10. **We enhanced our financial safety nets, crisis-preparedness, and contingency planning.** Since September 2019, our legal framework allows extending emergency liquidity assistance (ELA) only to solvent and viable banks. The NBM is implementing its enhanced ELA regulatory framework (adopted in December 2019), and with the help of IMF technical assistance, will improve rules regarding collateral eligibility and draft rules on risk control and internal procedures. We stepped up our efforts to fully operationalize the National Financial Stability Committee that met four times in 2019 as a forum for the inter-agency systemic risk assessment and policy coordination, recently focusing on the nonbank credit sector and issued recommendations to the relevant authorities aimed at strengthening financial stability. In November 2019, the NBM published for the first time its Financial Stability Report. The Deposit Guarantee Fund (DGF) expanded its coverage to include legal entities and the deposit coverage limit was raised from MDL 20,000 to MDL 50,000. As of January 2020, the legal framework—according to which DGF premia are risk-based—entered in force and will be applied once the NBM approves the banks' risk profiles according to SREP assessments. Assets of the DGF were equivalent to about 4.3 percent of covered deposits of individuals as of January 2020. The NBM is determining the premium schedule and the organization of the new Bank Resolution Fund, which is expected to be operational in the second half of 2020.

11. **The Central Securities Depository (CSD) has become an integral part of our capital markets infrastructure.** The CSD ensures that securities' ownership is safely recorded, while also improving the transparency of financial markets. This infrastructure will facilitate development of new financial instruments and entry of new investors. All companies entering or participating in the Moldovan capital markets will be registered at the CSD. Following the transfer of registers of bank and insurance companies completed in May 2019, the transfer of the shareholder records of all fifty-six joint-stock companies traded on the Moldova Stock Exchange was completed in December 2019.

We intend to strengthen the registration requirements for other companies currently registered as JSCs, to ensure that the companies that are relevant to Moldova's capital markets are registered in CSD by December 2021.

12. Investing in adequate nonbank financial sector supervision is our utmost priority. We commit to enhancing regulatory and supervisory frameworks and enforcement capacity to mitigate risks arising from the non-bank financial sector:

- **Non-bank credit organizations (NBCOs).** We have adopted legislative amendments (**prior action, set to compensate for the missed end-October 2019 structural benchmark**) to strengthen the financial stability of the sector, including by setting higher statutory capital requirement, promote consumer protection and responsible lending practices, and mitigate household indebtedness risks through: (i) prohibiting NBCOs from accepting deposits or other repayable funds from the public (except subordinated debt from qualified shareholders), (ii) obliging NBCOs to report new credit activity to the credit bureaus, (iii) introducing limits on the total cost of consumer credits, (iv) introducing an effective, proportionate, and dissuasive sanctioning regime, and (v) increasing minimum share capital to MDL 1 million from January 1, 2021. We also strengthened prudential requirements to enhance ownership transparency and qualification requirements, improve the loss-absorbing capacity, and prevent build-up of systemic risks. Going forward, we will step up efforts to ensure effective exchange of all credit-relevant information among the three main credit bureaus. We will also develop secondary regulations, considering the provisions of the Law on NBCOs, which will contribute to better alignment of the regulations and supervisory practices applied to NBCOs to those applied to formal financial institutions.

- **Insurance sector:** We acted on the actuarial review of the insurance market conducted in collaboration with the World Bank, and based on the new regulatory framework, conducted identification of ultimate beneficiary owners of the insurance companies. This resulted in initiation of actions against insolvent companies, thereby improving the transparency and governance of the industry. Recognizing that a significant portion of the market is still operating with weak solvency margins, our immediate objective is to conclude a comprehensive solvency review of all insurance companies with the solvency ratio below 120 percent that includes: the general audit, compliance audit, and Green Card insurance audit, with a view to improve compliance with capital adequacy requirements as well as with regards to the Green Card convention system. In collaboration with the World Bank, we developed a new insurance law and regulations to make them consistent with the IAIS Insurance Core Principles, the FSAP recommendations, and transpose essential risk management and governance requirements of

Solvency II Directive and bring the capital adequacy requirements for local insurance undertakings in line with Solvency I requirements. A new Law on Motor Third Party Liability (MTPL) Insurance aims to transpose the requirements of the 2009 EU Motor Insurance Directive. The legislative adoption process is expected to be finalized during 2020. Our ultimate objective is to instill an adequate regulatory and supervisory environment that allows for the development of an insurance sector capable of meeting the risk management needs of all economic agents.

B. Monetary and Exchange Rate Policies

13. The NBM's monetary policy framework is anchored by its inflation target. The 5 percent inflation objective is forward-looking and, with a view to be achievable and credible, it is appropriately set on the medium-term horizon. The 200-basis point reduction of the policy rate in December 2019 reflected the NBM forecast for a rapid slowdown of CPI inflation this year. The policy rate was kept unchanged in January 2020, given greater uncertainty on the balance of risks around the baseline forecast. The NBM stands ready to gradually adjust its policy rate to steer inflation towards its inflation target.

14. The NBM will continue to recalibrate its reserve requirement framework to enhance monetary policy transmission, liquidity management, and domestic currency intermediation. Towards this objective, in May 2019, the NBM reduced the remuneration rate on FX required reserves to 0.01 percent effective June 1, 2019. Since July 2019, the NBM adopted a number of decisions to rebalance FX and MDL required reserve ratios, yielding a cumulative reduction of 1.5 percentage points in MDL and increase of 6 percentage points in FX ratios, respectively, by March 2020. Going forward, provided that monetary conditions allow, we will continue to re-align these requirements with an objective to ensure the ratio on MDL deposits does not exceed that on FX deposits.

15. Moldova's vulnerability to external shocks requires having a flexible exchange rate as an effective shock absorber. Towards this objective, the NBM has successfully reduced its FX market footprint, as witnessed by a reduction in the volume and frequency of interventions in 2019H2. The end-December NIR target set under the program was comfortably met. To institutionalize this shift to greater two-way exchange rate flexibility, the NBM adopted in December 2019 a regulation defining FX market intervention procedures consistent with our inflation-targeting regime (**structural benchmark, end-December 2019**). Going forward, we will limit interventions to smoothing excessive FX market volatility.

16. The NBM will continue efforts to enhance its policy communication to ascertain policy awareness and credibility. Its external communication will give greater prominence to key considerations that weigh on monetary policy decisions. The NBM will further refine its forecasting process to strengthen outputs and decision-making. It will also continue and enhance regular information exchanges with relevant counterparts and stakeholders.

C. Fiscal Policy

17. The 2019 augmented cash deficit of the general government, at 1.5 percent of GDP, significantly outperformed the program target of 3 percent of GDP. This overperformance was largely due to tight control of current expenditures in the face of external financing uncertainty, as well as due to under-execution on capital projects. While the ceiling on the wage bill was observed, program's indicative floors for priority social spending and project spending funded from external sources were missed. The under-execution of the priority social spending was due to lower than budgeted volume of contracted medical services, as well as the decrease in the number of the unemployment benefit recipients. The under-execution of externally-funded project spending was due to the extension of public tender timelines for most of the infrastructure projects and overambitious budgeted plans as compared to the implementation capacity of the public authorities. Tax revenues turned out to be lower than budgeted by 0.3 percent of GDP, mainly due to lower import related revenue, largely on account of stronger exchange rate and lower-than-expected import volumes.

18. The 2020 budget envisages a growth-friendly fiscal expansion to support our development objectives. In an effort to improve the composition of our budgetary spending and mobilize fiscal space for development, the approved 2020 budget envisages a tight control over the wage bill, keeping it constant compared with the previous year at around 7.5 percent of GDP. At the same time, our large infrastructure needs require a sustained effort to increase public infrastructure investments. To preserve public debt sustainability, our financing strategy will prioritize concessional project financing from our external development partners with a view to allow domestic bank financing to support private investment. The approved 2020 budget foresees augmented deficit reaching 3.9 percent of GDP as the capital outlays rise from 3.4 to 5.0 percent of GDP in 2019 and 2020, respectively. We will undertake utmost efforts to secure external financing agreed with external partners to implement our ambitious investment program. However, we stand ready to review our spending plans and adopt a supplementary budget if external financing risks materialize.

19. We give high priority to promoting growth-enhancing investment in public infrastructure. Towards this objective, we plan to implement recommendations of the 2019 Public

Investment Management Assessment (PIMA). Supported by IMF technical assistance, we will use the findings of this assessment to improve planning, allocation, and implementation stages of the public investment management cycle.

20. We will continue strengthening the organizational structure and institutional capacity of the State Tax Service (STS). We see the establishment of the STS in April 2017 as an important step forward in our determination to modernize tax administration in Moldova. To preserve this progress, we will resist any initiatives to reverse regional and functional reorganizational reform. Our recent and planned initiatives include:

- In February 2020, we have formally proposed September 30, 2022 as a due date for initiation of the automatic exchange of information with the OECD’s Global Forum on Transparency and Exchange of Information for Tax Purposes and adopted a time-bound action plan towards its implementation (**structural benchmark, end-December 2019**).
- We intend to further align STS’s function-based organizational structure, and consolidate divisions and branches around tax administration functions, such as tax payer service, arrears management, filing compliance, audit, and others. The Crime Establishment and Control Division will proactively identify tax crimes, with a clear priority given to the investigation of the most serious cases.
- We will assess the scope for including a General Anti-Avoidance Rule provision in the Tax Code to counter domestic and international abusive tax practices.
- We will operationalize the integrated taxpayer register, in collaboration with the IMF and the World Bank, by end-June 2021.
- We plan to undertake a comprehensive review of tax audits with a view to focus on risk-based approaches, strengthen the audit program design, and improve tax debt collection.

21. We commit to strengthening our unitary pay system in the budgetary sector. In the context of the 2020 budget, we have reduced the number of reference values from ten to eight. By mid-2020, in the context of Medium-Term Budget Framework (MTBF) 2021–23, we will adopt a time-bound plan with a view to gradually reduce the number of reference values to three by 2025 to improve the wage-compression ratio, budgetary process, and medium-term planning. To support this strategy, we have made significant progress in establishing a comprehensive IT-based staff registry, with a view to have the registry fully operational by end-2020.

22. We are committed to preserving long-term sustainability of the pension system. Towards this objective, in consultation with the World Bank and the IMF, we amended the Law on Social Insurance and the Law on Pension System (**prior action**) to: (i) replace double indexation of pensions below subsistence minimum with semi-annual (April and October) indexation based on CPI inflation in the previous semester, starting in October 2020, (ii) exclude the possibility to recalculate pensions of prosecutors and judges based on the monthly wage of their sitting peers, and (iii) redesign the 5-year guarantee of benefit payment to surviving spouses to exclude payment of benefits to pension beneficiaries whose pensions are above 1.5 times of pension subsistence level. By mid-2020, we will revise retirement conditions for judges to gradually increase (by six months per annum), starting from 2021, both retirement age (from 50 to 60 years old) and the contribution period (from 20 to 30 years, including from 12.5 to 15 years of work as judges). Also, in 2021 state social insurance budget, we will set the annual fixed social contribution paid by self-employed in legal professions (lawyers, notaries, bailiffs, administrators and mediators) depending on social contribution rates (18 percent and 6 percent), calculated based on the projected average wage in economy for the year, but no less than MDL 22,900 a year, with subsequent indexation to growth in average wages in the economy. Going forward, we will consult with the World Bank to identify policy measures to restore pension system sustainability affected by the reduction of employer social contribution rate in the private sector, and we will refrain from ad hoc measures that put the pension system at risk. Based on the availability of resources in the state budget, we will consider allocating additional budgetary resources to social assistance programs targeting pensioners with small pensions.

23. We will continue to enhance targeting and effective coverage of our social assistance programs. We will update eligibility and benefit parameters of targeted social assistance programs, such as Ajutor Social and Heating Allowance, in coordination with other income support policies to prevent decline in coverage and to maintain benefits adequacy. We will revisit the list of documents required to apply for targeted benefits and implement the set of active labor market programs to social assistance beneficiaries to help reduce their reliance on cash transfers.

24. To support our medium-term fiscal objectives, we will take measures to strengthen our fiscal institutional frameworks. We will integrate findings from the 2018 spending review of Higher Education and Vocational Training into our MTBF and annual budget processes starting with the MTBF 2021–23. To this end, we plan to integrate spending review guidance into budget regulations. We are piloting our second spending review in the agriculture sector to better evaluate our spending needs.

25. We will continue expanding our fiscal risk statement (FRS). In the 2020 FRS, we expanded the coverage of contingent liabilities arising from state-owned enterprises, public-private partnerships, and the Prima Casa program guarantees. Going forward, we will continue to improve coverage, monitoring and reporting of risks and take actions to reduce those risks.

26. We remain committed to eliminating audited state and local government arrears. We aim to improve the monitoring of arrears and prevent their accumulation. In particular, we will strengthen the enforcement of Article 67 of the Law on Public Finances and Fiscal Responsibility, including by intensifying inspection of arrears repayment.

27. The development of the domestic government bond market remains one of our debt management objectives. To that end, the Ministry of Finance will continue to seek to enhance its communication with state securities market participants and extend the maturity of state securities.

D. Structural Reforms

28. Greater transparency, predictability, and good governance in the energy sector are our priorities. A volatile political situation has complicated prudent policy making in the energy sector, including our ability to deliver on adopting 2019 gas tariffs fully based on the existing methodology and purchase price of natural gas (**structural benchmark, end-October 2019**). Nevertheless, our objective remains to achieve predictable and transparent tariff-setting based on sound methodologies and enforced by an independent regulator. This will help depoliticize tariff-setting and support medium-term growth by reducing uncertainty, improving the business environment and reducing fiscal risks. Towards this objective:

- In the electricity sector, ANRE adopted in August 2019 tariffs fully based on the February 2018 methodology, including: (i) the settlement of the differences in the assessment of past financial deviations from April 2017–February 2018, and (ii) the approval of the basic costs for the first financial year of the 2018 methodology. As of October 2019, past supply and distribution tariff deviations in the amount of MDL 2.2 billion, as per the 2016 ANRE decision, have been fully recovered.

- In the gas sector, ANRE has adopted a decision (**prior action**) establishing the mechanism to recover over a 5-year period starting in 2020 tariff deviations of regulated gas tariffs in the amount of MDL 1.3 billion accumulated from 2011 to 2019.

- In coordination with ANRE and the Energy Community Secretariat (ECS), Moldovagaz has submitted an action plan for legal and functional unbundling of the transmission system operator by end-2020. As per commitments under the EU Association Agreement and the MFA, this will facilitate competition and enable the effective separation of the suppliers from the gas pipeline operators, non-discriminatory third-party access to transmission, the consumers' right to switch suppliers. We will take necessary steps to complete the extension of the Iasi-Ungheni pipeline to Chisinau to ensure that alternative gas suppliers can compete in the Moldovan market.

- In line with our agreement with the EBRD and in coordination with the ECS, we will strengthen corporate governance and oversight of the state energy supply operator Energocom by (i) introducing procurement, risk, compliance and internal audit functions, (ii) adding a qualified and independent member to both the Board and the Audit Committee; and (iii) separating the accounts for key business lines.

- We will strive to align our energy sector legal and regulatory frameworks to best European practices to promote much-needed energy investment. We will continue collaboration between stakeholders on energy-related issues, including with the Energy Community Secretariat and the World Bank.

29. We will take measures to strengthen economic governance. Our efforts will include enabling a level playing field for companies through fair and effective competition policies, easing entry into business, ensuring transparent government procurement, strengthening the rule of law and improving regulatory quality. We will promote strong tax, customs, and AML/CFT frameworks; and implement Moldova's commitments under the DCFTA and the EU Association agreements.

30. We are committed to accelerate our efforts to recover assets stolen in the 2014 bank fraud. Since September 2019, we have (i) approved a significant increase in staffing of the Criminal Asset Recovery Agency, (ii) established exchange of information with other asset recovery agencies under the umbrella of the Europol, and (iii) seized assets amounting to MDL 1.4 billion primarily in the form of equity stakes as well as immovable property and bank accounts. While we recognize that recent changes in the leadership of the Prosecutor General and Anti-Corruption Prosecutor offices have affected the momentum of investigative efforts, we understand the critical importance of demonstrating a strong track-record of combating corruption, prosecuting perpetrators of the banking fraud, and recovering stolen assets. Towards this objective, we will:

- Advance our efforts to establish operational cooperation with the authorities and judicial cooperation bodies of the European Union and the United States of America, including by establishing joint investigation teams to initiate international investigations and prosecution of perpetrators of the bank fraud;

- Empower the Criminal Asset Recovery Agency to be able to represent specific private law entities (defrauded banks) in international asset recovery actions;

- Step up coordination, under the leadership of the President and the umbrella of the State Security Council, among all relevant stakeholders, including the prosecutor's office, National Anticorruption Center, Criminal Asset Recovery Agency, the NBM, and AML Agency.

31. Enhance the capacity of National Integrity Authority (ANI) as a truly independent strong pillar of our anti-corruption framework, in cooperation with the World Bank. Asset and interest declarations of public officials will be reviewed in a timely and credible manner. We will adopt guidelines for declarants on the beneficial ownership of assets which should be reflected in the asset and interest declarations.

32. We will further strengthen our AML/CFT framework by implementing the 2017 AML Law and 2019 MONEYVAL recommendations. Moldova faces various money laundering threats mainly deriving from corruption, tax evasion and smuggling committed internally and drugs trafficking and human trafficking for crimes committed outside of the country. The government has established an inter-agency working group responsible for implementing Moneyval recommendations, formulating the 2020-2024 National AML/CFT strategy, and conducting the second ML/TF national risk assessment. We will:

- Promote better reporting of suspicious activities and transactions under the new reporting system by ensuring that all types of reporting entities become more familiar with their business-specific ML/TF threats and vulnerabilities, and better equipped to apply risk-based assessment tools and appropriate customer due diligence;

- Develop and implement the suspicion-based activity and transaction reporting IT system for all types of reporting entities; with the USAID's support, the NBM will implement an IT solution for monitoring bank shareholders' transparency and off-site analysis for AML/CFT purposes by end-2020;

- Adopt the Law on Sanctions for violations of ML/TF rules, in line with MONEYVAL recommendations and in coordination with the Council of Europe and European Union;

- Undertake an update of the National ML/TF Risks Assessment (NRA), with the support of the international partners, such as the World Bank, to be completed by March 2021;

- Adopt guidelines for the exchange of AML/CFT information among all relevant stakeholders by mid-2020.

33. We remain committed to achieving sustainable, balanced, and more inclusive growth. Improving the business environment and facilitating investments are key to fostering technological advancement and raising investment in infrastructure and human capital. In this context, we will continue reforms in education, health, and social policies, thereby raising human capital, counter migration and demographic pressures.

34. Effective policy-making requires timely, accurate, and comprehensive data. To this end, we commit to carrying out a review of the adequacy of resources allocated to the National Bureau of Statistics and enhancing its capacity and coordination role of the national statistical system. We will step up our efforts to facilitate the exchange of information between government agencies and the NBS for statistical purpose, as well as to strengthen the methodological coordination with NBS on data production by these institutions.

Program Monitoring

35. The performance for the completion of the final review under the program is monitored through prior actions, quantitative and performance criteria, indicative targets, and structural benchmarks. The quantitative performance criteria, inflation consultation clause, and indicative targets are set out in Table 1, as specified in the Technical Memorandum of Understanding (TMU) attached to our Letter of Intent dated September 3, 2019. The prior actions, along with proposed structural benchmarks, are set out in Table 2.

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

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

	Jun 2018				Sept 2018		Dec 2018				Mar 2019			Sep 2019			Dec 2019			
	EBS/17/130 Target	Revised Target	Actual	**Status**	Prog. Target 3rd rev.	Actual	Prog. Target 3rd rev.	Adjusted Target 5/	Actual	**Status**	Prog. Target 3rd rev.	Adjusted Target 5/	Actual	Prog. Target 4th and 5th rev.	Adjusted Target 5/	Actual	Prog. Target 4th and 5th rev.	Adjusted Target 5/	Actual	**Status**
1. Quantitative performance criteria 1/																				
Ceiling on the ***augmented*** cash deficit of the general government	3,548	4,290	-789	**Met**	4,986	-1,499	5,681	6,949	2,009	**Met**	1,985	1,957	357	4,345	4,200	1,537	6,219	6,080	3,182	**Met**
Of which: on-lending agreements with external creditors to state-owned enterprises	257	275	103		309	272	618	396	396		30	2	2	199	199	54	299	299	159	
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) 2/	2,349	2,431	2,550	**Met**	2,592	2,678	2,629	2545	2,688	**Met**	2,752	2,668	2,510	2,480	2,480	2,648	2,570	2,539	2,739	**Met**
2. Continuous performance criteria																				
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	**Met**	0	0	0	0	0	**Met**	0	0	0	0	0	0	0		0	**Met**
and making of payments on behalf of utilities and other companies	0	0	0	**Met**	0	0	0	0	0	**Met**	0	0	0	0	0	0	0		0	**Met**
3. Indicative targets																				
Ceiling on the stock of accumulated domestic government arrears 3/	0	0	12	**Not met**	0	12	0	0	3	**Not met**	0	0	3	0	0	11	0	0	1	**Not met**
Ceiling on the general government wage bill	7,244	7,616	7,005	**Met**	10,935	10,119	14,030	14,030	13,733	**Met**	3,968	3,968	4,034	12,270	12,270	11,775	15,983	15,983	15,649	**Met**
Floor on priority social spending of the general government	9,463	9,291	9,332	**Met**	13,985	14,085	19,280	19,280	19,261	**Not met**	4,873	4,873	4,943	15,889	15,889	15,539	21,720	21,720	21,509	**Not met**
Floor on project spending funded from external sources 4/	647	433	366	**Not met**	1,366	641	2,963	2,963	1,114	**Not met**	148	148	142	1,102	1,102	1,026	2,142	2,142	1,637	**Not met**
4. Inflation Consultation Bands (in percent)																				
Outer Band (upper limit)	5.6	5.2			5.0		5.0				5.8			8.2			9.5			
Inner Band (upper limit)	4.6	4.2			4.0		4.0				4.8			7.2			8.5			
Center point	3.6	3.2	3.2		3.0	2.4	3.0		0.9		3.8		2.8	6.2		6.3	7.5		7.5	
Inner Band (lower limit)	2.6	2.2			2.0		2.0				2.8			5.2			6.5			
Outer Band (lower limit)	1.6	1.2			1.0		1.0				1.8			4.2			5.5			

1/ Indicative targets for September and March.
2/ The NIR target is set as specified in the TMU.
3/ As of January 2017, domestic expenditure arrears exclude local governments.
4/ N/A - target is new for 2018, and thus applicable only going forward.
5/ The NIR Targets for December 2018 and March 2019 have been adjusted as per the TMU for the shortfall in EU Grants and Loans and IMF budget support.

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

	Measure	Timeframe	Status
Prior Actions for Board Consideration of the Review			
1	Parliament to approve legislative interpretation of the Law on Bank Activity governing the removal of unfit shareholders to clarify that the (treasury) buy-back of new shares can only occur after the final retail stage at the reduced market price (MEFP ¶7).		Met.
2	Amend the legislation on non-bank credit organizations to: (i) prohibit NBCOs from accepting deposits or other repayable funds from the public, (ii) oblige reporting new credit activity to the credit bureaus, (iii) introduce limits on total cost of consumer credits, (iv) introduce an effective, proportionate, and dissuasive sanctioning regime, and (v) increase capital to MDL 1 million from January 1, 2021 (MEFP ¶12, first bullet).		Met.
3	Amended the Law on Social Insurance and the Law on Pension System to: (i) replace double indexation of pensions below subsistence minimum with semi-annual (April and October) indexation based on previous six-month CPI inflation starting in October 2020, (ii) exclude the possibility to recalculate pensions of prosecutors and judges based on average wage growth of their sitting peers, and (iii) redesign the 5-year guarantee of pension payment to surviving spouses to limit its eligibility only to vulnerable households with pensions below 1.5 times of pension subsistence level. (MEFP ¶22).		Met.
4	ANRE to adopt a decision establishing the mechanism in the gas sector to recover over a 5-year period starting in 2020 tariff deviations of regulated gas tariffs in the amount of MDL 1.3 billion accumulated from 2011 to 2019 (MEFP ¶28, second bullet).		Met.
Structural Benchmarks			
Fiscal Sector			
1	Formally propose a date and adopt an action plan for the automatic exchange of information with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes (4th and 5th Reviews, MEFP ¶22, third bullet).	End-December 2019	Not met. Implemented in February.
Financial Sector			
2	Amend the legislation on non-bank credit organizations to: (i) prohibit accepting deposits from the public, (ii) oblige reporting new credit activity to the credit bureaus, (iii) introduce limits on total cost of consumer credits, and (iv) strengthen sanctioning regime (4th and 5th Reviews, MEFP ¶13, first bullet).	End-October 2019	Not met. Compensatory measure is set as PA#2.
3	NBM to allow a systemic bank to exit temporary administration in an orderly manner (4th and 5th Reviews, MEFP ¶8, first bullet).	End-December 2019	Not met. Implemented in February.
4	Develop an FX intervention strategy to facilitate two-way flexibility and reduce the NBM's market footprint (4th and 5th Reviews, MEFP ¶16).	End-December 2019	Met
Energy sector			
5	Adopt 2019 gas tariffs fully based on the existing methodology and purchase price of natural gas (4th and 5th Reviews, MEFP ¶28).	End-October 2019	Not met. Compensatory measure is set as PA#4.