International Monetary Fund

Republic of Moldova
and the IMF

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November 7, 2016

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Republic of Moldova: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

October 24, 2016

The following item is a Letter of Intent of the government of the Republic of Moldova, which describes the policies that the Republic of Moldova intends to implement in the context of its request for financial support from the IMF. The document, which is the property of the Republic of Moldova, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

Chişinău

October 24, 2016

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

Dear Ms. Lagarde:

1. Weak governance in Moldova's financial sector, left unaddressed for years, enabled a large and well-orchestrated bank fraud in late 2014, with pronounced economic and social costs. The subsequent sharp stop in external concessional financing and the policy gridlock that resulted from the turnover of three consecutive governments last year complicated the policy response to an already challenging external environment. Against that backdrop, real GDP contracted by ½ percent in 2015, public and public-guaranteed debt rose by 11 percent of GDP, the exchange rate depreciated some 25 percent, international reserves fell by one-third, and monetary conditions had to be tightened significantly to prevent a sharp increase in inflation. The situation has stabilized in recent months, but remains fragile. A concerted effort, with the financial and technical support of our international partners, will be critical to restoring confidence and allowing for broad-based inclusive growth.

2. To address these challenges, we are committed to a comprehensive economic reform program that aims to decisively strengthen economic governance and transparency, and reduce risks. A sequence of near- and medium-term reforms will aim at ensuring the long-term safety and soundness of the financial system, through achieving transparent shareholder structures and good governance and risk management of the banks, and strengthening the resources, powers, and accountability of the supervisory and regulatory agencies. We aim to restore the capacity of the budget to support developmental and social goals, while preserving debt sustainability. We will strengthen the revenue base, and improve the efficiency of expenditure, directing fiscal savings to much needed capital expenditure and targeted social spending. We are committed to eliminating accumulated debts within the energy sector through transparent pricing solutions and to ensuring utility tariff-setting at cost-recovery levels, with appropriate social safety net safeguards for vulnerable population groups. We are working to improve the business environment, and will

continue to seek ways to demonstrate a regime shift when it comes to efforts to stamp out corruption, money-laundering, and fraud.

3. A number of key measures will be put in place immediately to demonstrate our commitment to program policies and objectives. These prior actions, which are described below and appear in Table 1, address long-standing issues in the financial sector, not just through bold changes to legislation and regulations, but also through early enforcement actions that will demonstrate a departure from the culture of supervisory forbearance. The program of the Government enjoys broad political support and our reform efforts are backed by a Parliamentary majority.

4. We request the support of the IMF for the ambitious reforms needed to achieve our program objectives. Based on our estimated balance of payments needs, we request the approval of blended Fund support in the form of a 36-month extended arrangement under the Extended Credit Facility and a 36-month arrangement under the Extended Fund Facility in the cumulative amount of SDR 129.4 million (75 percent of quota). The first disbursement will be SDR 26 million, of which the domestic currency counterpart of Fund purchases in the amount of SDR 18 million will be used to finance the budget deficit.

5. We believe that the strong policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP), many of which will be taken upfront, will resolutely put Moldova on a path consistent with achieving the program objectives. Nonetheless, the government stands ready to take additional measures that may be adequate for the successful implementation of the program. The government will consult with the Fund on the adoption of such measures and in advance of revisions to the policies contained in the MEFP in accordance with the Fund's policies on such consultations. We will provide the Fund with the information it requests for monitoring our progress.

6. Continuing with our policy of transparency, we consent to the publication of this letter, the attached MEFP, and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

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

/s/
Octavian Calmîc
Deputy Prime Minister
Minister of Economy

/s/
Octavian Armaşu
Minister of Finance
Ministry of Finance

/s/
Sergiu Cioclea
Governor
National Bank of Moldova

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

Attachment I. Memorandum of Economic and Financial Policies

I. Macroeconomic Developments and Outlook

1. **Growth is low and not broad-based**. The economic recovery in 2016 hinges on a rebound in agriculture in the second half of the year, as remittances remain weak. The external conditions are still challenging, with growth in key trading partners improving only marginally. Investment—including public capital spending – has declined on tight financing conditions. Private consumption showed signs of improvement in the first quarter, but is likely to remain subdued in the near term due to lower real income and remittances.

2. **Inflation is declining and is likely to remain low**. Inflation declined sharply in the first half of the year reflecting downwards adjustments of energy tariffs, a slowdown in international food prices, and weak domestic demand. In the second half of the year, a high base effect and favorable prospects for harvest will contribute to further deceleration of inflation toward the lower bound of the NBM target range of 5 +/- 1.5 percent. Looser monetary policy settings since the beginning of the year and a gradual strengthening of domestic demand should stabilize inflation within its target range in the near-term.

3. **The current account deficit is narrowing but should gradually adjust to the medium term norm as growth recovers and reforms bear fruit**. Imports contracted more than exports in Q1 2016, with lower international energy prices playing an important role. This trend is expected to continue for the rest of 2016, resulting in an improvement of trade deficit and an overall narrowing of the CA deficit. In 2017, the rebound in agriculture will support a stronger recovery in exports, tempering the projected pick-up in imports as financing constraints are lifted and demand recovers.

II. Policy Framework for 2016–17

A. Financial Sector Policies

4. **An end goal of financial sector policies over the next 18 months is to protect long term financial stability by delivering a system of sound financial institutions operating within a strong regulatory and supervisory environment**. This will allow banks to exit special supervision, and restore their role in supplying credit to productive sectors, unlocking stronger economic growth. To this end, we are working on four fronts:

i. taking enforcement actions to address breaches with bank regulations identified in the special audits and ongoing onsite inspections in order to improve banks' internal governance and risk management;

ii. enhancing the National Bank of Moldova (NBM) powers and capacity to identify banks' ultimate beneficial owners and related-party lending in order to achieve a transparent shareholder structure in all banks in the system by end-June 2017;

iii. strengthening the regulatory, supervisory, and resolution framework in line with international standards; and

iv. enhancing the governance of the NBM itself, by completing the staffing of the Administrative and Supervisory Boards and Audit Committee, and reinforcing its human resources and operational capacity.

Enforcement actions to address breaches with banking regulations identified in the external special audits of 2015 and onsite supervisory inspections of 2016 and 2017

5. We have taken action against a total of 42 percent of shareholders in Moldova Agroindbank (MAIB) for acting in concert, in violation of the Law on Financial Institutions. These shares were canceled in March 2016 and June 2016, and on September 28, 2016 MAIB's treasury will put up for sale the same number of newly-issued shares. All potential new significant shareholders (those with equity stakes greater than 1 percent) will be subject to fit-and-proper certification, in line with LFI and NBM regulations.

6. We will take necessary actions to ensure the functionality of Victoriabank's supervisory board *(prior action)*. A critical step in improving governance will be restoring the functionality of the supervisory board, whose role is to supervise, develop and implement the bank's policy and to appoint the bank's executive board. To that end, we will: (i) follow international best practices in the fit-and-proper certification process of the three recently nominated board members, (ii) once there is a quorum, instruct the supervisory board to convene, in order to tackle the overdue agenda of approving the banks' audited financial statements for 2015 and to confirm (or change) the executive board. We aim for this process to be completed by first week of September 2016. In the event that shareholders obstruct the board's functionality we will use all powers at our disposal, including blocking the voting rights of relevant shareholders, and request that the remaining shareholders call an extraordinary shareholder meeting to appoint a new supervisory board.

7. The NBM will put MICB under temporary or special administration, as deemed appropriate, in order to address its irregularities *(prior action)*. In particular, the NBM administration will address problems related to nontransparent shareholder structure, internal governance, risk management, and compliance with prudential requirements, identified during the special supervision and the June 2016 on-site inspection. The aim of the temporary or special administration will be to determine the condition of the bank, preserve its franchise value, and ultimately implement a private sector-based solution.

8. The three banks under special supervision will be required to submit strong time-bound remedial action plans for NBM approval *(prior action)*. In line with the decrees issued in June 2016 (for MAIB and Victoriabank), and to be issued by end-August 2016 (for MICB), these banks must submit within 30 days specific and comprehensive remedial action plans to the NBM for approval. We are developing interactive supervisory processes for assessing, approving and monitoring the remedial action plans. We will conduct full-scope on-site inspections followed by an off-site verification of the action plan by end-February 2017 *(structural benchmark)*, after which banks in full compliance with the NBM regulations will exit the special supervision regime. By end-March 2017, we will take appropriate enforcement actions against non-compliant banks *(structural benchmark)*.

9. We will conduct full scope on-site inspections in all remaining banks by end-December 2017 *(structural benchmark)*. The fourth and fifth largest banks that are not subsidiaries of foreign banking groups, will be inspected before end-May 2017 and the remaining banks by end-December 2017 (formalized draft reports at minimum).

Enhance NBM's powers and enforcement capacity to identify banks' ultimate beneficial owners and related-party lending

10. We commit to properly identify banks' ultimate beneficial owners (UBOs) in the three largest banks by end-December 2016 and in all banks by end-June 2017 *(structural benchmarks)*. The UBOs of the fourth and fifth largest banks that are not subsidiaries of foreign banking groups, will be identified before end-March 2017. We have recently established a Shareholder Transparency Unit within the NBM. We are also well advanced in selecting a software system for registration, monitoring and analysis of shareholders and related parties, and expect the system to be fully operational by end-December 2017. Supported by near-term technical assistance from IMF, we will take the following steps:

- ***Legislative changes*** *(prior actions)*: We will adopt amendments to the LFI and NBM law allowing the NBM to use professional judgement based on objective criteria, to presume any person as a bank's related party unless the bank is able to prove otherwise. The law will also allow the NBM to develop and issue regulations on the criteria according to which it will identify a person as related party to a bank, and develop a process of related party diagnostics.

- ***Changes to regulations governing identification of UBOs*** *(prior action)*: The NBM will develop and issue regulations on (i) the criteria and governance of the process for identifying banks' ultimate beneficial owners and (ii) the conduct of related party diagnostics. Specifically, as part of these efforts we will review our methodology for assessing the financial standing of bank owners, including proof of the source of wealth.

- ***UBO identification plan***: The NBM will prepare a plan for full identification of all banks' UBOs *(prior action)*, with a target date of completion at end-December 2016 in the three largest banks and by end-June 2017 in all other banks.

11. The UBO identification process will be followed by an identification and unwinding of loans to related parties. We will instruct the three largest banks to submit, by end-January 2017, a plan to unwind any identified above-limit related party exposure within a period of two years, depending on the size of the exposures. Other banks will be required to submit plans at a later stage. NBM will finalize its diagnostics on related party lending by end-December 2017 *(structural benchmark)*. To help enforce plans on unwinding related party lending, we will amend the LFI to grant NBM the explicit power to deduct excess exposures to related parties from total regulatory capital when assessing capital adequacy.

12. To reduce the scope for fraudulent changes in bank ownership and in corporate securities we will adopt a new modern law on the Central Securities Depository *(prior action)*. A working group is well advanced in preparing the establishment of the Central Securities Depository (CSD) and we will hire a project manager by mid-October 2016. To enable the CSD to start operations for corporate securities, NCFM will enact the regulation that will determine the procedures of verification to be conducted in order to ensure the accuracy of such data as well as the measures to be taken, in case of inconsistencies between such registrar's records and any other document with legal value. By end-December 2016, NCFM shall confirm the integrity of the legal records of securities of 24 Public Interest Enterprises (PIE) that are traded on the MSE and include financial institutions.

Revamp the resolution framework and plan for contingencies

13. To ensure we could handle any contingencies in the banking sector in an orderly fashion, we will finalize and enact a Bank Recovery and Resolution Law and amend the related legislation *(prior action)*. We will amend the current draft Bank Recovery and Resolution Law to ensure that it contains adequately broad intervention and resolution powers in line with international best practices, together with transitional provisions to handle any weak institutions. The changes will include, but not be limited to, ensuring that NBM staff involved in bank resolution have legal protection when acting in good faith. We will also approve amendments to related laws to ensure consistency, notably the LFI, the NBM law and the law on the Deposit Guarantee Fund.

14. We are preparing contingency plans to mitigate potential risks. By end-August 2016, we will strengthen the special supervision regime of the three largest banks, including by restricting lending to related parties and shell companies, and increasing the frequency of banks' reporting on liquid assets and liabilities. Supported by technical assistance by IMF, we will take the following actions:

- **Prepare fallback contingency strategies for each of the three large banks, making use of the powers provided under the new Bank Recovery and Resolution Law** *(prior action)*. The final strategies will incorporate the findings of the related party diagnostics and will ensure depositors and macroeconomic stability are appropriately protected.
- **The Government stands ready provide resolution funding for systemic banks, if private funds are not forthcoming**. Public funds will be made available under strict conditions, including that existing shareholders are fully written down prior to public funds being used, and under the broad principle of preserving financial stability while minimizing the cost to tax payers. Public funds will not be used to protect shareholders' and related-party deposits. Any government guarantees will be issued only as a last-resort solution with the aim to restore public confidence in the systemic banks.

15. We will strengthen the financial sector safety net. We will also prepare for raising the insurance coverage limit of the Deposit Guarantee Fund (DGF) to better contribute to financial stability. Such changes will be accompanied with the establishment of backup funding and subrogation to the DGF of insured depositors' claims on failed banks after their payouts from the DGF.

16. The scope of judicial review will be clarified in the law. In July 2015, parliament adopted legal amendments ensuring that grounds for appeal of NCFM decisions are limited in line with

NBMs decisions. We will adopt legal amendments to ensure that in case of a reversal/annulment by the court of a NBM decision pertaining to banks' significant shareholders according to Art.15, 15 index 1 and index 6 of the LFI, this would result in monetary compensation and not in reversal of the NBM/bank decrees on share transfers/cancelations. Also, the draft Law on Bank Recovery and Resolution provides that in case that a court shall annul or reverse an NBM decision pertaining to crisis management measures, the effects of such decisions shall be upheld and the only redress available shall be monetary compensation. We will seek local expert legal counsel advice regarding the scope of judicial review of NBM decisions, as assessed against the constitutional provisions.

Update the regulatory and supervisory framework

17. We are significantly increasing sanctions so as to act as a proper deterrent *(prior action)*. We have drafted legal amendments to LFI proposing tenfold increases in monetary fines that may be imposed by the NBM; banning sanctioned bank directors, managers and employees from holding any positions in financial sector for a period of at least 5 years; and to hold managers of banks responsible for intentional actions that contributed to the banks' unsafe and unsound situation. Consistent with international best practice, we will amend the draft to hold bank managers or any other persons (including shareholders) pecuniary liable for the failure of a bank (including any significant prejudice to the bank's solvency and liquidity) and/or for its liquidation.

18. In parallel, we will seek to complete the overhaul of the supervisory and regulatory framework, focusing on:

- **Strengthening the implementation of the AML/CFT framework to complement anti-corruption efforts**. In particular: (i) ensure that the legal frameworks for anti-corruption and AML/CFT are in line with international standards, particularly with regard to the criminalization of corruption and preventive measures for politically exposed persons, (ii) ensure that the asset disclosure framework for senior officials covers assets beneficially owned, and (iii) strengthen AML/CFT supervision and conduct targeted risk-based on-site inspections of the banking sector to ensure that AML/CFT preventive measures are effectively implemented by banks and (iv) implement dedicated IT solution to improve the efficiency of AML/CFT supervision in the banking sector.

- **Preparing a strategy for addressing remaining deficiencies**. By end-2016 we will prepare an action plan for implementation of the key recommendation from the Basel Core Principle Assessment, conducted by IMF/WB staff in relation to the 2014 FSAP *(structural benchmark)*.

- **Establishing a policy for placement of public sector deposits**. The MoF will define procurement rules in contracting banks for public funds management, and refrain from giving privileged access to public sector funds.

Enhancing the governance of the NBM

19. We will ensure that the NBM has proper governance structures and appropriate resources to carry out the financial sector agenda. We will (i) complete the staffing of the Administrative and Supervisory Boards and also the Audit Committee of the NBM *(prior action)* and (ii) amend the NBM law and regulations necessary for the review of the NBM's remuneration system so that the NBM has sufficient resources and salary market competitiveness to attract qualified staff and complete its hiring program. In particular, the remuneration of the NBM staff should not be inferior to equivalent positions in the banking sector, or depending on their specificity, in other economic sectors.

B. Monetary and Exchange Rate Policies

20. Our monetary policy will continue to be implemented within an inflation-targeting framework, complemented by exchange rate (ER) flexibility. We have already started a relaxation of monetary policy conditions, although real interest rates remain strongly positive and the reserve requirement on leu deposits is still at high 35 percent. Unlocking credit growth, which continues to stagnate, will require monetary policy measures combined with efforts, described above, to revitalize the banking sector and achieve financial sector stability.

21. To signal our commitment to the inflation targeting regime, we are including an inflation consultation clause in the ECF/EFF, with central targets consistent with macroeconomic projections and growth outlook. There will be dual consultation bands around these targets. Should actual inflation be higher or lower than the inner consultation band of +/- 1 percent, the NBM will consult with IMF staff on the reasons for the deviation and taking into account compensating factors and proposed remedial actions if deemed necessary. Should actual inflation be higher or lower than the outer consultation band of +/- 2 percent, a consultation with the IMF Board will be triggered.

22. In this context, we will undertake broad-based assessment of the stance of monetary policy, taking into account potential deflationary pressures stemming from favorable prospects for agricultural output, weak domestic demand, compounded by the high base effect. If inflation continues to decelerate in the second half of 2016, there will be scope for further downward adjustment in the policy rate and/or reserve requirement ratios.

23. The efficiency of NBM inflation targeting framework is conditional upon its institutional and policy independence, which requires, inter alia, a viable balance sheet. To this end, we will finalize the procedures surrounding the bailout of the three failed banks. A Law will be adopted regulating the transfer of the securities to the NBM to securitize the emergency loans extended to these banks *(prior action)*. To limit unintended expansionary pressures, we will use all future NBM profit transfers to government to repurchase these securities, starting with the longer dated tranches, allowing for a reduction in domestic public debt.

24. Meanwhile, we will not resist exchange rate movements driven by fundamentals, and the NBM's intervention in the foreign exchange market will be aimed only at counteracting volatility. Moldova's vulnerability to external shocks points to the need to have flexible exchange rate arrangement that serves as an efficient absorber of shocks. In this context, the NBM will adhere to flexible exchange rate policies and will intervene in the market to smooth sporadic volatility. The NIR targets set under the program are consistent with these commitments.

25. We will continue improving our inflation targeting framework, forecasts of inflation and key macroeconomic indicators, as well as communication policies explaining monetary policy performance. In this context we will aim to enhance collaboration and coordination with MOF, MOE and NBS, to enhance the consistency of macroeconomic data, projections and ultimately macroeconomic framework, focusing among other things on discussions of the growth outlook, the drivers of inflation, the inflation outlook, and implications for the inflation objective. We will also consider stronger interactions between fiscal and monetary policies by improving coordination of liquidity forecasting and cash management, and sterilization of aid and privatization inflows.

C. Fiscal Policy

26. We remain fully committed to our 2016 fiscal deficit target of 4,272 million lei (or 3.2 percent of GDP) as approved in the budget law. On the revenue side, we have increased excise tax rates on various products and introduced wealth taxes on large real estate holdings. We have taken a few measures to strengthen customs administration, including the introduction of a risk management concept in the Custom Code and adjustments toward the European Union Integrated Customs Tariff (TARIC). Nonetheless, weak internal demand in the first half of the year has led to under-execution of VAT revenues. Disbursement of external budget support grants will fall short of budget projections by an estimated of MDL 1,502.4 million. Under these circumstances, meeting the deficit target would be achieved largely through expenditure prioritization as follows:

- *Restraint of the total wage bill increase*. In advance of a broad public administration reform to be implemented starting in 2017 (see MEFP ¶30), we will rely on temporary measures. We will partially eliminate unfilled positions in the central government (half of the difference between filled positions at end-2015 and total staffing positions in the approved budget), for identified savings of MDL 200 million.

- *Other spending containment*. Subsidies will be contained, in particular those to specific sectors for which external financing is not forthcoming (savings of MDL 772 million). Spending on goods and services will be carefully prioritized (specific measures of MDL 502 million have been identified).

- *Priority spending*. We will protect priority spending, such as capital investment and spending related to activities in the policy matrix agreed with foreign donors which would unlock external financing in the coming years.

- *Clearance of domestic arrears*. We have reduced the stock of domestic arrears from MDL 743.5 million at end-2015 to MDL 465.5 million in June 2016. We will continue reducing the stock of arrears by prioritizing their clearance according to transparent economic and financial criteria *(indicative target)*. While arrears have risen as a result of financing constraints over the last 18 months, we recognize that there is a persistent element of expenditure arrears that needs to be addressed. We will work on diagnosing the cause of persistent central government arrears, paying particular attention to the potential role that unrealistic budgeting, weak expenditure controls, inefficient cash management, or gaps in reporting may play in this regard. In addition, we will strengthen the legal frameworks for local governments by clearly defining their financial management responsibilities and sanctions for non-compliance.

- *Cash management*. To reduce interest costs on the central government budget, we will improve our cash management, in particular cash transfers between government budgets. We will monitor budget executions of government agencies and strengthen the link between central government transfers and these budget executions.

The 2016 budget law will be amended to be consistent with this deficit target and in line with the spending composition to safeguard priority spending *(prior action)*.

27. We intend to use any additional external budget support financing above programmed amounts to clear domestic arrears and reduce exceptionally high levels of domestic borrowing. Should additional external budget support financing become available in the second half of 2016, we are committed to using this additional financing to clear remaining domestic payment arrears and reduce expensive domestic borrowing, which may help relieve some of the interest burden towards the end of the year.

28. We will prepare our 2017 Budget and the Medium-term Budget Framework for 2017–19 in line with program targets *(structural benchmark)*. We are determined to ensure a sustainable fiscal path for public debt in a balanced and growth-enhancing manner. We are guided by the medium-term fiscal anchor set in the Fiscal Responsibility Law (FRL), which limits the overall fiscal deficit excluding grants to 2.5 percent of GDP by 2018. Given the low risk of public debt distress and the need for social spending and growth-enhancing investment, we intend to use the escape clause for public capital investment funded by external concessional sources. In order to ensure delivery of the objectives of the escape clause, we will identify and protect the execution of key investment projects and/or programs which meet the criteria *(indicative target)*.

29. We will strengthen the framework for containing fiscal risks stemming from government guarantees. On-lending agreements with external creditors to state-owned enterprises will be monitored explicitly through an augmented fiscal deficit *(quantitative performance criterion)*, which will include net lending to SOEs as a budgetary expenditure. While on-lending arrangements through commercial banks to the private sector do not carry an equivalent risk to the state budget, but we will tighten the evaluation framework for entering into such contracts, including by taking into account the capacity of the sector to absorb large inflows.

30. Our medium-term fiscal strategy will be focused on:

- *Raising revenues by strengthening the tax base, gradually reducing reliance on external grants over time*. We will continue to develop the tax system, so that it yields a stable revenue, and is uncomplicated, efficient, and transparent, while paying due attention to fairness and equity. We will target an increase in tax revenues (including social and health insurance contributions) of about 1.4 percent of GDP through 2019. To that end,

- *We commit to review and rationalize various exemptions and/or discounts on VAT, excises, CIT, PIT, and property taxes*. We will redesign tax expenditures provided to various sectors in more efficient and equitable ways. For the agricultural sector, this includes a revision of tax incentives to enhance structural change in the sector through investment and better land utilization. Related to CIT, we will review the possibility to unify a number of different CIT rates. A simplified and unified tax regime and accounting system applied for individuals who are performing business and professional activities, with mandatory registration at the State Tax Service (STS) and cash register machines will be designed and established, in order to increase general level of compliance. In addition, we intend to strengthen the VAT system and its tax base by streamlining exemptions and the two reduced rates. All the above-described measures are expected to yield an increase in tax revenues of about 1.2 percent of GDP by 2019. Also, we will increase excise taxes towards the level observed in the EU according to Association Agreement between Republic of Moldova and European Union.

- We are developing plans to reduce underreporting of taxable income and wages. We will adopt industry-based cash economy strategies, utilizing continued engagement with industry bodies and tax practitioners, advisory programs, promoting clear communications on areas of non-compliance, and sample and follow-up audit programs and prosecution.

- We intend to revise the mechanism of real estate valuation in the cadaster to broaden the tax base for real estate taxes.

- Advancing tax administration reforms is a key policy priority to improve tax compliance and revenue collection. In this regard, the government has recently approved a legal framework for unification of the state tax administration to replace the current fragmented arrangements, with expected implementation in 2017. Our focus will also be on enhancing the performance of the large taxpayer office (LTO) and the high wealth individual (HWI) program. For the LTO, this includes the expansion of its auditor workforce, establishing clear criteria for determining the status of large taxpayers, assigned affiliated companies of large taxpayers to the LTO irrespective of their turn over and revenue contribution, and profiling large taxpayers on areas of activity. For the HWI program, a revised concept should be adopted in order to increase the efficiency of it. Information sharing between the LTO and HWI is also important.

- ***Improving the efficiency of spending, directing fiscal savings from these adjustments toward capital expenditure and targeted social spending***

  - With the objective of making public administration more efficient and competitive, we will initiate structural reforms which include a sector-by-sector rationalization of public wages and employment, and an examination of the incentive structures and their setting mechanisms. In this context, we will initiate a thorough review of core functions of public servants not to undermine the capacity of Ministries to deliver on their core objectives.

  - We will rationalize a number of non-targeted categorical social benefits. We intend to consolidate various categorical social benefits to reduce administrative costs and avoid benefit overlap, and direct resources to the existing means-tested programs (namely, Ajutor Social and Heating Allowance). We will also strengthen these means-tested programs by using more active information campaign to improve the take-up ratio, indexing theirs benefits over time, and introducing measures to limit the work disincentives over the medium term.

31. Over the course of the program, we will implement a number of structural reforms underpinning our fiscal strategy:

- *Fiscal Rules*. We are committed to work on improving the fiscal rules to provide space for social and development objectives while ensuring fiscal sustainability. We will carefully revisit the fiscal anchor in the FRL and also strengthen the fiscal rules by explicitly linking it with debt sustainability.

- *Fiscal Risks*. We will start preparing and will publish a Fiscal Risk Statement (FRS) accompanying the annual budget documents (starting with the 2018 budget) as a tool to help improve the transparency of fiscal policies and associated risks.

- *State-owned enterprises (SOEs)*. To prevent the emergence of fiscal risks from SOEs, we will develop a regular monitoring mechanism to assess their financial performance. Enhanced quarterly reporting from SOEs will be enforced from 2017, pending approval of the relevant government decision in 2016. Formal annual audits of the largest SOEs are carried out since 2015. Starting from 2017, such annual audits will be mandatory for all SOEs, according to the draft law on state and municipal enterprises, to be adopted by Parliament in 2016.

- *Utility tariff adjustment*. Broader measures (see MEFP ¶32) will safeguard the risks of transferring private sector losses to public sector balance sheets *(also an indicative target)*.

- *Social security system*. We intend to implement reforms to the current pension system to ensure the sustainability of the pension system as well as more equitable outcomes among different types of beneficiaries. To improve coverage and compliance, we aim to strengthen the link between contributions and pension benefits, particularly through our efforts at reducing informality (MEFP ¶30). Long-term sustainability of the pension system could also be achieved through an increase of the statutory retirement age and a more systematic indexation of pension benefits instead of ad-hoc increases. We are undertaking a comprehensive analysis of the current pay-as-you-go system.

D. Structural Reforms

32. We are committed to eliminate accumulated debt by energy companies and ensure setting utility tariffs at cost-recovery levels.

- In electricity sector, the accumulated tariff deviations by energy companies will be recovered via a tariff supplement. To this effect, government and Gas Natural Fenosa signed an Agreement that recognizes the amount of outstanding tariff deviations of MDL 1.75 billion and envisages a repayment through annually adjusted tariffs in equal installments over January 2017–December 2020 recovery period, with annual interest of 7.66 percent applied to the outstanding amount. The same structure will be applied to repayment of financial deviations accumulated by other electricity distribution companies (namely Red Nord-Vest, Red Nord, Furnizare Energie Electrica Nord). The decision by the regulator (ANRE) on the amount and timing of the first increase in 2017 will be made publicly available *(prior action)*.

- We will continue to work closely with the World Bank on restructuring the Termoelectrica's debt accumulated with Moldovagaz. We will increase the district heating tariff in August, sufficiently for Termoelectrica to cover its operational costs and investment expenditures required to maintain its infrastructure, meet the current payments for gas as well as to allow for the debt service obligation with Moldovagaz for the debt accumulated by the end-2015 *(prior action)*.

- We commit to regular and timely public reporting of submitted costs and requested tariff adjustments by energy companies as well as approved costs by the regulator (ANRE), starting with the publication on ANRE's website of the information underpinning the decision on Termoelectrica *(prior action)*.

- We will continue to provide financial support to vulnerable households through social assistance programs, Ajutor Social and Heating Allowance, and will work on improving the targeting of this support and its effective coverage. To mitigate the effect of higher energy tariffs on low income households, adequate resources will be allocated in the budget (see MEFP ¶8) *(indicative target)*.

33. We recognize the importance of timely utility tariff adjustments to ensure the financial viability of energy companies and to prevent a build-up of quasi-fiscal costs. With the assistance of the World Bank, we will work on developing and implementing a transparent mechanism to ensure timely adjustment of utility tariffs on the basis of costs, in case the regulator fails to act within the timeframe specified in the Laws on Electricity and Natural Gas (up to 180 days) *(structural benchmark)*. In collaboration with the energy community, we will continue to work on improving the institutional and technical functionality of ANRE to ensure a transparent and predictable sector regulation. Specific efforts will be made to strengthen ANRE's budgetary independence and make the procedure for the appointment of directors fully transparent and merit-based. We will also work on improving communication about the schedule and rationale of planned tariff adjustments and the available social assistance for vulnerable groups.

34. We view strengthening economic governance and transparency as a top priority and a necessary foundation for robust economic growth. We recognize weak governance and corruption in a broad range of areas, including implementation of laws and regulations and effectiveness of the judiciary. These weaknesses undermine public confidence in government, discourage foreign investment by raising the costs of doing business, and ultimately constrain economic growth. We are committed to taking stronger actions to address these challenges. In addition to the extensive actions aimed to restore proper governance in the financial sector, we will adopt a financial disclosure of net worth by senior government officials and high wealth individuals, which would contribute to increased transparency and have positive spillover effects on the income taxation framework. We will also ensure that the National Anti-corruption Center is subject to a robust external oversight process and it can access all relevant information for its investigations, including of high level officials.

35. To facilitate higher potential growth and poverty reduction over medium-term, we intend to update our Poverty Reduction Strategy, reflecting changes in economic development since it was published in 2013.

E. Program Monitoring

36. The program will be monitored through semi-annual reviews, prior actions, quantitative performance criteria and indicative targets, and structural benchmarks. The prior actions along with proposed structural benchmarks are listed in Table 1. The list of the quantitative performance criteria and indicative targets are set in ¶2 of the Technical Memorandum of Understanding (TMU).

37. Given that financing from the IMF will be partly used to provide direct budget support, a framework agreement will be established between the government and the NBM on their respective responsibilities for servicing financial obligations to the IMF. As part of these arrangements, Fund disbursements will be deposited into the government's account at the NBM.

Table 1. Moldova: Prior Actions and Structural Benchmarks Under the ECF/EFF

	Measure	Status
Prior Actions for Board Consideration of the Arrangement		
Bank governance		
1	NBM to take necessary actions to ensure the functionality of Victoriabank's supervisory board.	Completed.
2	NBM to put MICB under temporary or special administration in order to address its irregularities.	Completed.
3	The three banks under special supervision (MAIB, MICB, and VB) will be required to submit strong time-bound remedial action plans for NBM approval.	Completed.
4	NBM will prepare an Ultimate Beneficiary Owner (UBO) identification plan.	Completed.
5	Complete the staffing of the Administrative and Supervisory Boards and also the Audit Committee of the NBM.	Completed.
Crisis management		
6	Parliament to enact a Bank Recovery and Resolution Law that gives adequate intervention and resolution powers to the NBM.	Completed.
7	NBM to prepare fallback contingency strategies for each of the three large banks, making use of the powers provided under the new Bank Recovery and Resolution Law.	Completed.
Regulatory and supervisory framework		
8	Parliament to adopt amendments to the LFI and NBM laws that grant legal powers to NBM to (i) presume any person as a bank's related party on the basis of objective criteria, unless the banks are able to prove otherwise; (ii) develop and issue regulations on the criteria according to which it will identify a person as related party to a bank, and develop a process of related party diagnostics; and (iii) deduct exposures to related parties from bank capital adequacy.	Completed.
9	NBM to adopt regulations on the criteria according to which it will identify related parties and develop processes for conducting related party diagnostics.	Completed.
10	Parliament to adopt the new law on the Central Securities Depository, consistent with the technical assistance on the law provided by the IMF.	Completed.
11	Parliament to adopt legislation increasing sanctions on managers, administrators, and shareholders of banks for wrongdoings.	Completed.
Energy Sector		
12	Publish the decision by the regulator (ANRE) on the amount and timing of the first tariff supplement in 2017 for recovery of the accumulated tariff deviations by energy companies.	Completed.
13	Increase the district heating tariff sufficiently for Termoelectrica to cover its operational costs and investment expenditures, as well as to meet the current payments for gas and its debt service obligation.	Completed.
14	Publish on ANRE's website the information underpinning the decision on Termoelectrica.	Completed.
Fiscal Policy		
15	Parliament to approve an amended 2016 budget law consistent with the program deficit target and in line with the spending composition needed to safeguard priority expenditure.	Completed.
16	Convert state guarantees to the NBM into marketable government securities with appropriate maturity and interest rate structures, in line with the Law on securitization of emergency lending.	Completed.
Structural Benchmarks 1/		
Financial Sector		
1	Conduct full-scope on-site inspections in all banks:	
	1a Three largest banks, including off-site verification of remedial action plans	end-February 2017
	1b The fourth and fifth largest banks that are not subsidiaries of foreign banking groups	end-May 2017
	1c Remaining banks	end-December 2017
2	Take appropriate enforcement actions against any of the three banks that have not complied with their remedial action plans.	end-March 2017
3	Complete identification of UBOs in all banks:	
	3a Three largest banks	end-December 2016
	3b The fourth and fifth largest banks that are not subsidiaries of foreign banking groups	end-March 2017
	3c All remaining banks	end-June 2017
4	Prepare a strategy for addressing key remaining deficiencies identified in the BCP assessment.	end-December 2016
5	Conclude the diagnostics on related party lending in all banks.	end-December 2017
Fiscal framework		
6	Adopt the 2017 budget in line with program targets.	end-November 2016
7	Adopt a Medium Term Budget Framework for 2017–2019 in line with program targets.	end-November 2016
Energy sector		
8	Develop a transparent mechanism to ensure timely adjustment of utility tariffs on the basis of costs to prevent any discretionary delays.	end-March 2017

1/ Additional structural benchmarks will be set at the time of the first program review.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative targets (prior actions, performance criteria and indicative benchmarks) established in the 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 augmented overall cash deficit of the general government, i.e., the overall cash deficit of the general government augmented by on-lending agreements with external creditors to state-owned enterprises (SOEs) (MEFP ¶29); and
- the ceiling on accumulation of external payment arrears of the general government (continuous).
- the ceiling on absorption by the government of losses or liabilities and making of payments on behalf of utilities and other companies (continuous) (MEFP ¶31);

Indicative targets are set on:

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

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

B. Program Assumptions

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

C. Institutional Definitions

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

D. Program Definitions

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

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

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

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.

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. On this basis, and consistent with the definition above, the stock of NIR of the NBM amounted to US$1,550 billion as of end-June 2016.

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

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

7. The overall cash deficit of the general government is cumulative from the beginning of a calendar year and will be monitored from the financing side at the current exchange rate established

[2] For the calculation of the net credit of the banking system to general government the following accounts will be excluded: 1711, 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, 3533 and the group of accounts 2100.

by NBM at the date of transaction. Accordingly, the cash deficit is defined, as the sum of net credit of the banking system to the general government (as defined in paragraph 6), the general government's net placement of securities outside the banking system, other net credit from the domestic non-banking sector to the general government, the general government's receipt of disbursements from external debt[3] for direct budgetary support and for project financing minus amortization paid, and privatization proceeds stemming from the sale of the general government's assets.

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

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

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

[3] Debt is defined as in footnote 4.

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

the times at which payments must be made; they do not involve the issuance of securities. External debt is defined by the residency of the creditor.

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

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

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

[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.

14. The **priority social spending of the general government** is defined as the sum of essential recurrent expenditures including pension[6] and unemployment insurance payments from the Social Insurance Fund (BASS, 9008/00286), the *Ajutor Social* (social assistance program 9015/00320) and heating allowance (9015/3022) during the cold season from the central government budget, as well as 94 percent of health expenditures from the main fund of the Health Insurance Fund.

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

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

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

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

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

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[6] The pensions include the following subprograms and activities, 9004 with activities 00258–00266, 0077, 00298, 9005 with activities 00360 and 9010 with activities 00253.

E. Inflation Consultation Mechanism

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

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

Inflation Consultation Bands

	2016	2017			
	December Target	March Indicative	June Target	September Indicative	December Indicative
Outer Band (upper limit)	5.5	5.7	6.4	6.6	6.7
Inner Band (upper limit)	4.5	4.7	5.4	5.6	5.7
Actual/Center Point	3.5	3.7	4.4	4.6	4.7
Inner Band (lower limit)	2.5	2.7	3.4	3.6	3.7
Outer Band (lower limit)	1.5	1.7	2.4	2.6	2.7

F. Adjusters

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

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

20. The **ceiling on the augmented overall cash deficit** of the general government will be adjusted upward—that is, the deficit target will be increased—by:

a. the amount of any shortfall between the total amount of actually disbursed and programmed budget support grants from the European Commission. The upward adjustment for 2016 is capped at the equivalent of MDL 220 million, valued at the program exchange rates; and

b. the amount of domestic expenditure arrears cleared upon availability of higher-than-programmed external budget support. For 2016, the programed external budget support equal to the equivalent of MDL 3,133 million, valued at program exchange rates.

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

Programmed Onlending to SOEs and Adjustments to Augmented Fiscal Deficit

	2016	2017—Cumulative			
		Q1	Q2	Q3	Q4
Onlending to SOEs (programmed amount, millions of U.S. dollars)	19.8	14.9	29.7	44.6	59.4
Maximum downward adjustment on the augmented overall cash deficit (millions of Moldovan lei) 1/	394.1	295.2	590.4	885.6	1,180.8

1/ The adjustments are evaluated at the program exchange rate.

22. The floor on **NIR of the NBM** will be lowered by any shortfall in the official external grants capped at the equivalent of €10 million, valued at the program exchange rates.

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 2. The authorities will transmit promptly to Fund staff any data revisions.

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

Table 1. Moldova: Quantitative Performance Criteria, January–December 2017

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

	2016	2017			
	Dec	Mar [2/]	Jun	Sept [2/]	Dec [2/]
1. Quantitative performance criteria					
Ceiling on the ***augmented*** cash deficit of the general government	4,668	1,766	3,525	5,485	5,513
Of which: on-lending agreements with external creditors to state-owned enterprises	396	302	603	905	1,207
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) [1/]	1833	1798	1813	2045	2304
2. Continuous performance criteria					
Ceiling on accumulation of external payment arrears (millions of U.S. dollars)	0	0	0	0	0
Ceiling on absorption by the government of losses or liabilities and making of payments on behalf of utilities and other companies	0	0	0	0	0
3. Indicative targets					
Ceiling on the stock of accumulated domestic government arrears	466	383	300	150	0
Ceiling on the general government wage bill	11,323	2,674	6,003	8,720	11,924
Floor on priority social spending of the general government	16,182	3,729	7,873	12,077	17,230
3. Inflation Consultation Bands					
Outer Band (upper limit)	5.5	5.7	6.4	6.6	6.7
Inner Band (upper limit)	4.5	4.7	5.4	5.6	5.7
Actual / Center point	3.5	3.7	4.4	4.6	4.7
Inner Band (lower limit)	2.5	2.7	3.4	3.6	3.7
Outer Band (lower limit)	1.5	1.7	2.4	2.6	2.7

1/ The NIR target is set a program rate, MDL/US$ at 19.86 as of June 30, 2016.

2/ Indicative targets.

Table 2. Moldova: Data to be Reported to the IMF

Item	Periodicity
Fiscal data (to be provided by the MoF)	Monthly, within three weeks of the end of each month
General budget operations for revenues, expenditure and financing (economic and functional classifications)	
General government wage bill at the level of budgets (state budget, local budgets, Social Insurance Fund and Health Insurance Fund) and functional groups	Monthly, within three weeks of the end of each month
Number of budgetary sector positions and employees at the level of budgets (state budget, local budgets, Social Insurance Fund and Health Insurance Fund) and functional groups	Monthly, within three weeks of the end of each month
Social expenditure including pension and unemployment payments from the Social Insurance Fund, the *Ajutor Social* (social assistance program) and heating allowance for the cold season from the central government budget, and health expenditures from the main fund of the Health Insurance Fund	Monthly, within three weeks of the end of each month
Domestic debt	Monthly, within two weeks of the end of each month
Domestic arrears	Monthly, within three weeks of the end of each month
Onlending to SOEs by type of onlending projects and external creditors (including loan disbursements and repayments)	Monthly, within three weeks of the end of each month
Onlending via commercial banks by type of onlending projects and external creditors (including loan disbursements and repayments)	Monthly, within three weeks of the end of each month
Monetary data (to be provided by the NBM)	Weekly, within one week of the end of each week
Monetary survey of the NBM	
Monetary survey for the whole banking system	Weekly, within two weeks of the end of each week
Net claims on general government (NBM and commercial banks)	Weekly, within two weeks of the end of each week
Financial position of commercial banks, including balance sheets, income statement, banking regulation indicators, capital, liquidity, data on credits and deposits (from NBM's Banking Supervision)	Monthly, within four weeks of the end of each month
Foreign exchange operations (NBM data)	Monthly, within two weeks of the end of each month
Foreign exchange cash flows of NBM	Monthly, within two weeks of the end of each month
Foreign exchange market data (volume of trades, interventions, exchange rates)	Daily, within 12 hours of the end of each day
NBM's sterilization operations	Weekly, within one week of the end of each week
Interbank transactions (volumes, average rates)	Weekly, within one week of the end of each week
Balance of Payments (to be provided by the NBM)	One quarter after the end of the previous quarter
Current, capital, and financial account data.	
Transfers of individuals from abroad through the banking system	Monthly, within six weeks of the end of each month
External debt data (to be provided by MoF and NBM)	
Information on all new external loans contracted by the general government or guaranteed by the government.	Monthly, within three weeks of the end of each month
Total public and publicly guaranteed private sector debt service due and debt service paid, by creditor	Monthly, within three weeks of the end of each month
Disbursements of grants and loans by recipient sector (state/local/SOEs), and by creditor	Monthly, within three weeks of the end of each month
Other data (to be provided by NBS)	
Overall consumer price index.	Monthly, within two weeks of the end of each month
National accounts by sector of production, in nominal and real terms.	Quarterly, within three months of the end of each quarter
Export and import data on value, volume, and unit values, by major categories and countries.	Monthly, within two months of the end of each month