Republic of Moldova
Ministry of Finance

ECONOMIC REFORM PROGRAMME 2024-2026

JANUARY 2024

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ABBREVIATIONS

BPO	Business Process Outsourcing
CPI	Consumer Price Index
DSTI	Debt service-to-income
EFTA	European Free Trade Association
FEZs	Free Economic Zones
FRS	Fiscal Risk Statement
GDP	Gross Domestic Product
GVA	Gross Value Added
ICT	Information and Communications Technology
IFI	Independent Fiscal Institutions
ILO	International Labour Organization
IMF	The International Monetary Fund
IRB	Internal rating based
LCR	Liquidity Coverage Ratio
LTV	Loan-to-Value
MDL	Moldovan leu/lei
MEDD	Ministry of Economic Development and Digitalization
MoF	Ministry of Finance
MTBF	Medium-Term Budgetary Framework
NBM	National Bank of Moldova
NBS	National Bureau of Statistics
NEER	Nominal Effective Exchange Rate
NPL	Non-Performing Loans
NSFR	Net stable funding ratio
ODA	Organization for the Development of Entrepreneurship
OMO	Open Market Operations
p.p.	percentage points
PPP	Public-Private Partnership
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROE	Return on Equity
RRR	Required Reserve Ratio
SEPA	Single Euro Payments Area
SME	Small And Medium-Sized Enterprises
SREP	Supervisory and Evaluation Process
TFP	Total Factor Productivity
WB	The World Bank

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

For the Republic of Moldova, as an EU candidate state, this is the first opportunity to develop and provide the Economic Reform Programme (ERP) document. According to the official letter No 20-06-11454 of 30 October 2023, the Prime Minister of the Republic of Moldova, Dorin RECEAN, has nominated the Ministry of Finance as the National ERP Coordinator.

The ERP coordination team in the Ministry of Finance has cooperated closely with government institutions and other public authorities to draft and prepare the 2024-2026 Economic Reform Programme, namely the Ministry of Economic Development and Digitalization, Ministry of Labour and Social Protection, National Bank of Moldova and National Bureau of Statistics.

For the 2024-2026 ERP, the Republic of Moldova is not supposed to submit the Structural Reforms Chapter.

The Law No 181 of 25 July 2014 on public finance and fiscal responsibility stipulates that the Government, in accordance with the budgetary calendar, annually approves the Medium-Term Budgetary Framework (MTBF) for the next 3 years and presents it to the Parliament for information.

The 2024-2026 MTBF, approved by the Government Decision No 408 of 21 June 2023, sets fiscal policy objectives and fixes the framework for resources and expenditures of the national public budget.

The 2024-2026 Medium-Term Budgetary Framework is the main document based on which the 2024 annual budget was developed. Its main purpose is to provide an analysis of the macroeconomic framework, which serves as a basis for medium-term budgetary planning and for drawing up the annual budget in line with the Government's strategic priorities. The document builds on recent developments and forecasts macroeconomic and budgetary indicators (from March 2023), fiscal policy measures combined with sectoral expenditure measures and policies.

The Government Activity Programme *Prosperous, Safe, European Moldova*, the National Development Strategy *European Moldova 2030*, the National Development Plan for the years 2023-2025, as well as the commitments towards development partners are the key documents that determine the direction and development of government policies and provide the basis for setting policy priorities included in the 2024-2026 MTBF.

The Republic of Moldova has a small open economy with a Gross Domestic Product (GDP) per capita in terms of purchasing power parity of around 30% of the EU average in 2020, up from 25% in 2013. Overall, the Republic of Moldova demonstrates a satisfactory track record in carrying out broadly sound macroeconomic policies. The crises of the 2022 year, the severe drought, high prices, war in the neighbouring country, have continued to influence the evolution of the national economy in 2023. Thus, the GDP continues to decline, falling by 0.4% in the period of January-September 2023. However, it should be noted that in the third quarter of 2023 the GDP increased by 2.6%, which has mitigated the decline.

In the medium term, Government expenditure is expected to grow less than in previous years, expenditure is projected to have an average share of around 34.1% of GDP over the period 2024-2026 compared to 38.6% of GDP estimated for 2023. As a result, current expenditure is estimated at 32.7% of GDP, while capital expenditure is estimated at around 1.4% of GDP. Part of the capital expenditure is planned to be financed by external loans, which allows the Government to finance projects of public interest. In the medium-term period 2024-2026, expenditure growth rate is planned to increase from 2.3% in 2024 compared to 2023 to 7.1% in 2026 compared to 2025.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

The external situation remains complicated, with major uncertainties and risks. The global economy's recovery outlook, which was initially optimistic at the beginning of 2023, has been dampened by persistent inflationary pressures and recent turmoil in the international banking sector: Russia's invasion of Ukraine continues; geopolitical tensions are heightened. In the current circumstances, inflation has decreased as a result of the restrictive policies implemented by central banks and the decline in prices for food and energy. However, many countries are still experiencing price pressures, which in turn create tensions in the labour market. In addition, the rapid hike of the interest rates led to the increased vulnerabilities of the banking sector, which imposed harsh measures to stabilise/to balance the banking system.

The International Monetary Fund's (IMF) forecast scenario for the development of the world economy projects a recovery of economic activity in 2024-2026, indeed the negative risks persist, as the impact of the crisis remains extremely uncertain. This uncertainty could potentially result in slower recovery than expected.

Spill overs from the war continue to weigh on the economy of the Republic of Moldova. Following contraction by 5% in 2022, GDP further declined by 0.4% in January-September 2023. A modest recovery is expected in the second half of 2023 and 2024 (+3.5%), supported by strong agricultural production and a rebound in consumption and investment, as real wages and remittances recover, and risk perceptions improve. However, a negative output gap is expected to persist, and GDP will remain below pre-pandemic and pre-war trends. Uncertainty related to the war remains elevated and may slow down the recovery, and risks to the outlook are large and tilted to the downside. However, progress in the EU accession, a faster recovery in domestic demand or in trading partners could boost growth and confidence.

The projected economic growth is conditional on relatively good developments in the national economy sectors and reflects several factors compensating for losses in 2022: a gradual recovery in consumption, as inflation is expected to decline faster than previously anticipated and monetary easing will support credit; the recovery of agricultural production after the deep decline in 2022; the relative recovery of trade partners' economies, which will boost foreign trade; the increase in wages and pensions will support consumption; current relatively weaker monetary policy conditions and global energy prices lower than anticipated will also boost the demand.

Thus, the main assumptions regarding the major policies that will affect the economic outlook are:

- monetary policy remains appropriate;
- fiscal policy will continue to be focused on mitigating the economic and social fallout of the war, while supporting recovery;
- important business support measures will continue to be implemented;
- structural reforms policies will concentrate on the business support and labour market improvement;
- public infrastructure projects will continue to be implemented at a higher efficiency rate, partially being financed by the external financial resources, in important and strategic sectors such as energy, transport, roads and agricultural infrastructure.

Robust growth is expected over the medium term, driven by the implementation of reforms and, last but not least, in the country's economic reform commitments in the context of the EU candidate status.

3. MACROECONOMIC FRAMEWORK

3.1 Recent economic developments

The crises of the 2022 year, the severe drought, high inflation, war in the neighbouring country continued to influence the evolution of the national economy in 2023. Thus, the Gross Domestic Product (GDP) continued to decline, falling by 0.4% in the period of January-September 2023. However, it should be noted that in the third quarter, the GDP increased by 2.6%, which has mitigated the earlier decline.

Chart 3.1. Economic growth during 2021-2023, qoq, %

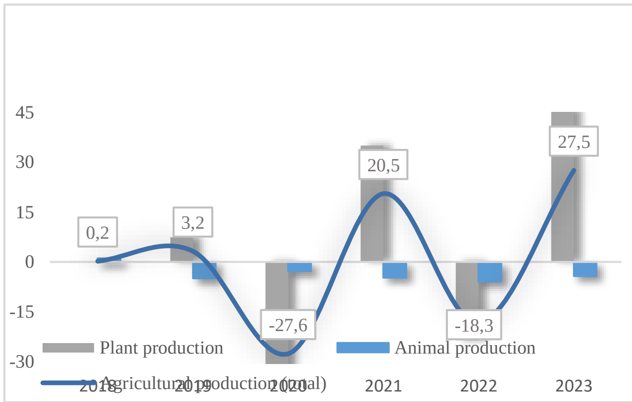
Source: NBS

The agricultural sector supported the economy in January-September 2023. After the extreme drought of the previous year, the agricultural sector has rebounded and has generated an increase in the Gross Value Added (GVA) of around 29% and a significant contribution of 2.3 percentage points to GDP, driven entirely by crop production increasing, while animal production remained in decline. The yields of the most agricultural crops increased (wheat, barley, maize, sunflower, rapeseed, sugar beet, vegetables, fruit, etc.).

With a share of around 6% of GDP, health and social assistance services continue to grow (+14%) and the contribution to GDP generated is around 0.8 percentage points.

At the same time, the ICT sector remains among the most progressive sectors of the national economy, growing by 11%, in the first 9 months of 2023, increasing its share up to 7% of GDP. The steady development of this branch of the national economy is due to the growing demand for IT services, mainly export-oriented, on the one hand and, on the other hand, to the general objective of digitizing the economy, both the private sector and the public administration.

Chart 3.2. Agricultural production growth in January-September 2018-2023, yoy, %



Source: NBS

Despite the major uncertainties facing the economy, the rather low economic feeling in the context of the war in the neighbouring country and the precarious situation in the region, the real estate sector recorded a 5% increase in GVA in January-September and a 0.3 percentage points contribution to GDP.

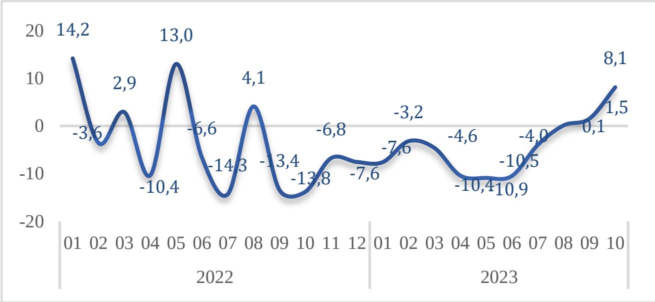
Services provided by the HoReCa sector also remain on a positive trajectory (+25% increase in GVA and 0.3 percentage points contribution).

However, within HoReCa, some economic activities decreased and had a negative impact on GDP in January-September 2023, with domestic trade making the largest negative contribution. Under current conditions, when consumer demand for goods by the population continues to decline, GVA in wholesale and retail trade decreased by 11% and subtracted 2 percentage points from GDP growth.

Strongly influenced by rising production costs, in the context of rising raw material and energy prices and disrupted supply chains, the industrial sector diminished over the period and contributed -1.3 percentage points to the GDP growth.

The most negative contribution to GDP was generated by manufacturing, whose GVA decreased by 8%. However, it should be mentioned that in September and October the first indications of a return to a positive trend in the industrial sector were registered (+1.5% and +8.1%), although the effects of the energy crisis, the complicated economic situation in the region, the decline in external and internal demand continue to create difficulties for industrial companies. These recent positive dynamics are due mainly to the food industry developments, especially vegetable oil production, fruit and vegetable processing, meat industry, manufacturing of bakery products, and other food products production (mainly sugar).

Chart 3.3. Evolution of the industrial production for 2022-2023 years, %



Source: NBS

Major uncertainties in the context of war in the neighbouring country, high prices for construction materials and budgetary constraints have led to a decrease in demand for construction services. As a result, the GVA generated by construction activity decreased by 9% and subtracted 0.6 percentage points from GDP growth.

On the demand side, the decrease in GDP was mostly caused by the decline of private consumption (-3.9%). The factors that have reduced consumption are the same: high prices, the erosion of disposable income of the population and the worsening of credit conditions in the context of the tightening of monetary policy in the previous year.

Chart 3.4. Economic growth by expenditure approach (contribution to growth, p.p.)

Source: NBS

Exports increased by 2.4% in January-September 2023, mainly due to exports of services, which increased by 5.4%, while exports of goods improved by only 0.5%. At the same time, imports decreased by 5.5%, influenced by both imports of goods (-6.2%) and services (-1%). These developments therefore resulted in a positive contribution of 4.8 percentage points of net exports to GDP.

With a share of 20% in GDP, gross fixed capital formation negatively influenced GDP growth by -1 percentage points. A substantial impact was generated by investment in machinery and equipment, which fell by 7.4% and contributed -0.5 p.p. to GDP growth, while investment in buildings and special constructions decreased by 2.2% and subtracted 0.3 p.p. from GDP growth. At the same time, the change in inventories influenced GDP by -0.8 p.p.

Labour market. The number of employed people in the third quarter of 2023 was 907.9 thousand persons and increased by 28.4 thousand persons (+3.2%) compared to the third quarter of 2022. Thus, the employment rate of the population aged 15 and over (the proportion of employed persons aged 15 and over in relation to the total population in the same age group) was 44.1% and improved by 2.8 p.p. compared to third quarter 2022. The highest share of the employed population is in the following sectors: agriculture, forestry and fishing (23.4%); public administration; education;

health and social work (21.2%); wholesale and retail trade; accommodation and food service activities (17.6%); and industry (14.3%).

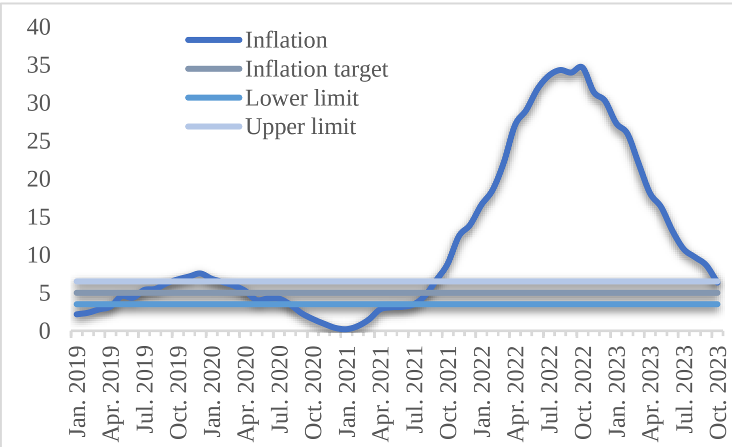
Employment improved in the main sectors such as: agriculture, forestry and fishing - by 13.7 thousand (+6.9%); industry - by 13.5 thousand (+11.5%) and other activities - by 16.5 thousand persons (+24.1%). At the same time, the number of employed population decreased in several activities: public administration, education, health and social assistance - by 9 thousand persons (-4.5%); construction - by 3.4 thousand persons (-4.8%); transport and storage, information and communication - by 1.8 thousand persons (-2.9%); wholesale and retail trade, accommodation and food service activities - by 1 thousand persons (-0.6%).

The unemployment rate (share of ILO unemployed in the labour force) at country level in third quarter of 2023 was 4.1%, being 1.6 p.p. higher than in third quarter of 2022 (2.5%).

The average gross nominal monthly wage in January-September 2023 amounted to MDL 12.0 thousand and increased by 1.2% in real terms compared to January-September 2022. Wages higher than the average were paid in activities such as: information and communication (about 2.5 times higher), financial and insurance activities (by 1.9 times), professional, scientific and technical activities (+15.8%), public administration (+10.6%), health and social work (+7.6%) and other service activities (+23.8%). Wages below the average are paid in accommodation and food service activities (62.6% of the average), agriculture (64.2%), arts, recreation and leisure activities (73%), education (81%), construction (85.5%), wholesale and retail trade (90.8%), industry (91%) etc.

Inflation. The upward inflation trajectory observed in 2021 and 2022, fuelled by the increase in international and regional food and energy prices, tariffs' adjustments, and strong internal demand, reversed in 2023. The tightening of monetary policy which started in 2021 and continued till the end of 2022 managed to contain the inflationary pressures. Along with the modest demand, the exchange rate dynamics determined a disinflationary effect on Consumer Price Index (CPI) in 2023.

Chart 3.5. Inflation rate (on annual basis, %)



Source: NBS and NBM

Furthermore, the mitigation of inflationary pressures from the foreign markets for commodity prices supported the decrease of import prices and allowed some tariff decreases during 2023 (electricity, natural gas, central heating). Also, the good harvest in 2023, coupled with a favourable base period effect determined a strong downward inflation trajectory in 2023. As a result of the above-mentioned factors, the annual inflation rate fell to 6.3% in October 2023 from 30.2% in December 2022. Also, it is worth mentioning that in October 2023 the annual inflation rate reached the inflation corridor of 5.0% +/-1.5 percentage points. Given the CPI structure, within the headline inflation, in October 2023, food prices inflation contributed 2.3 percentage points, core inflation with 2.1 percentage points, regulated prices inflation with 2.0 percentage points, and fuel prices inflation with minus 0.1 percentage points.

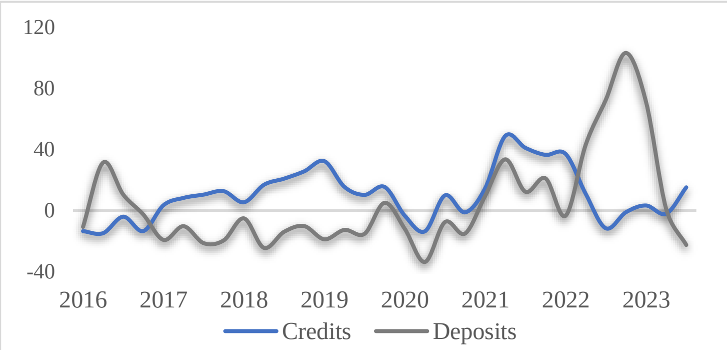
Monetary developments. The National Bank of Moldova (NBM) promoted a tightening monetary policy during 2022, with the aim of tempering the rapid growth rates of consumer prices, mitigating the secondary effects of supply shocks, stimulating financial intermediation in the national currency, and saving against consumption, balancing the trade balance, as well as the anchoring of inflationary expectations.

At the same time, the magnitude of the monetary policy measures was calibrated towards the end of the year with the monetary policy relaxation measures, in the context of the prospect of reversing the trajectory of the annual inflation after the maximum value in October 2022 and the shaping of pronounced disinflationary pressures on the part of aggregate demand on the background a negative GDP deviation.

In this regard, the base rate of the monetary policy was increased from 6.50% in December 2021 to 21.50% annually in December 2022. By increasing the base rate, the aim was to create the monetary conditions necessary to temper the rhythms of increase in consumer prices. At the same time, starting from 5 December 2022, decisions were approved to resume monetary policy relaxation measures, and until December 2023, the base rate was reduced to 4.75%, which was conditioned by disinflationary trends, the stimulation aggregate demand, including by encouraging consumption and balancing the national economy and anchoring inflationary expectations.

The annual growth rate of the monetary aggregate M3 in 2022 was 5.3 %. The monetary aggregate M2 increased by 9.6 % annually, currency in circulation increased by 8.5 % annually. In the third quarter of 2023, the monetary aggregate M3 recorded annual rates of 20.3 %, the main contribution being from deposits in the national currency (+33.1 % annually), simultaneously with the positive contribution of currency in circulation, but also the positive contribution from deposits in foreign currency.

Chart 3.6. Bank deposits and loans (annual change, %)

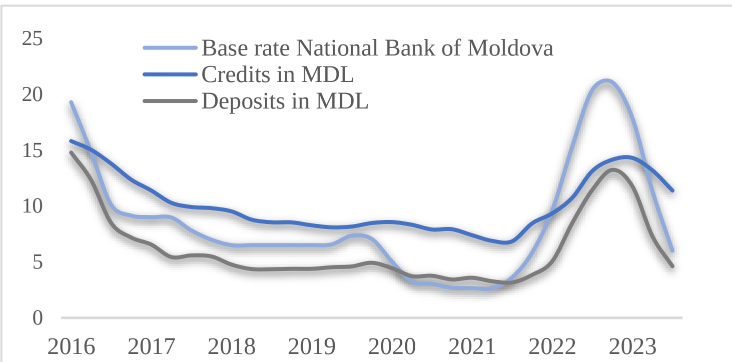


Source: NBM

The volume of new term deposits attracted in the third quarter of 2023, decreased by 22.6% annually, the decrease was influenced by deposits in the national currency by 34.6% annually, being partially compensated by the increase in deposits attracted in foreign currency by 14.2% annually.

In the third quarter of 2023, the annual dynamics of the total volume of new loans granted by the licensed banks registered a growth rate of 15.2%, under the conditions of increased lending in MDL. The evolution of new loans granted in the national currency – the Moldovan Leu accelerated significantly and recorded an annual growth rate of 52.8%, against the background of increases in loans granted to both legal and natural persons.

Chart 3.7. Interest rates, in % annual basis



Source: NBM

The average interest rate on new loans granted in the national currency in the third quarter of 2023 was 11.38% annually, at the same time, the average rate on new deposits attracted was 4.61%

annually. During 2023, following the decisions to relax the monetary policy, the average interest rates on loans and deposits have remained on a downward trend.

Exchange rate developments. Following a volatile 2022, in the first eleven months of 2023 the Moldovan Leu has appreciated by 3.8% versus the euro and by 6.9% versus the US dollar, due to a FX surplus on the domestic market. A recovery of the FX supply from individuals, sizeable inflows of external financial assistance, and low demand for FX from businesses led to excess liquidity on the FX market. Despite a decline in transfers from abroad, according to the data for the first ten months of 2023, the net supply from individuals has rebounded sharply by 24.9% as individuals began to gradually sell the accumulated FX currency during the crisis period in 2022. At the same time, the net demand from businesses has grown by only 2.9%, due to the subdued domestic demand and the marginal improvement in the merchandise trade balance, which is a result of a decrease in energy imports.

In order to limit the volatility of the exchange rate, the central bank intervened throughout January–November with net purchases of USD 335 million, with the majority of purchases conducted in the first quarter of the year.

Foreign reserves. At the end of November 2023, gross foreign reserves amounted to USD 5 160 million, up by 15.3% (+USD 686 million) compared to the end of 2022, as the World Bank, IMF, European Commission, Government of Japan and other development partners continued to provide budget support and the NBM intervened with net purchases on the local FX market. These inflows were partially mitigated by higher outflows related to external public debt service.

Banking System. As of 30 September 2023, in the Republic of Moldova, eleven banks licensed by the NBM were in operation. Among these, nine banks are more than 50% foreign owned, including six branches of foreign banks and financial groups.

Throughout the first 9 months of 2023, the banking system has remained resilient to external shocks, with no visible negative effects on the banks' balance sheets, under circumstances of the military conflict between Russia and Ukraine, challenges related to the energy crisis, and inflation. The banking system has remained well-capitalized and liquid. The profitability of the banks has stayed strong, with profits being the main source for further capital consolidation. Overall, recent developments in the banking system are favourable, but risks associated with the external environment are particularly pronounced, which could have a significant impact on the activities and risk profile of the banking system.

Throughout the first 9 months of the year 2023, the banking system has experienced growth in both the lending and the funding sources. In particular, the total assets increased by 10.3% and loan portfolio by 1.1%. Total deposits increased compared to the end of the previous year by 11.6%, driven by the increase in deposits from legal entities by 17.2% and from individuals by 9.2%. Among these, deposits in the local currency (MDL) increased by 16.4%, while deposits in foreign currency increased by 4.4%. The highest proportion of foreign currency deposits belonged to euro deposits, accounting for 72.6%, followed by the share of USD deposits at 26.4%.

Credit Risk. Credit risk is the most prevalent risk in the overall risk profile of banks. Amidst the numerous uncertainties stemming from the environment in which the banking sector operates, primarily due to the prolonged Russian-Ukrainian military conflict coupled with the energy crisis and the consequences of the coronavirus pandemic, credit risk remained one of the main priorities of the supervision process in 2023.

Over the first 9 months of 2023, the amount of non-performing loans experienced an increase of 5.7%. Consequently, the share of non-performing loans in the total loans grew by 0.3 percentage points, reaching a level of 6.7%. The banking system maintains a relatively high coverage of provisions calculated for non-performing loans (52.6% as of 30.09.2023). This, combined with the volume of own funds, limits the negative effects of a potential default of such loans upon the banks' solvency.

Table: Key indicators of the banking system (in %)

	2015	2016	2017	2018	2019	2020	2021	2022	09.2023
Capital adequacy									
Total Own funds ratio	26.2	29.8	31.3	26.0	24.8	27.3	25.9	29.2	31.4
Asset quality									
NPL/ Total Loans	9.9	16.4	18.4	12.5	8.5	7.4	6.1	6.4	6.7
Provisions for NPL/ NPL	56.5	66.1	67.9	67.4	64.9	65.5	62.5	57.9	52.6
Profitability									
ROA	1.7	1.8	1.9	1.7	2.5	1.5	2.0	2.9	3.1
ROE	10.2	11.1	11.4	10.3	14.6	8.7	12.3	17.0	17.9
Cost-to-income ratio	35.1	39.5	46.3	52.8	54.0	53.6	52.8	39.8	44.1
Liquidity									
Liquid assets/Total assets	41.7	49.3	55.5	54.6	50.6	50.7	48.5	49.6	53.3
Market risk sensitivity									
Net Currency Position /Funds Held	3.03 / -1.99	2.51 / -1.34	2.62 / -2.57	0.96 / -5.45	2.05 / -2.47	1.34 / -1.24	1.03 / -1.43	2.44 / -0.63	1.44 / -0.33
(Long/Short position)	L / S	L / S	L / S	L / S	L / S	L / S	L / S	L / S	L / S

Profitability. As of 30 September 2023, the profit in the banking sector amounted to MDL 3 355.2 million. Compared to the same period of the previous year, the profit increased by 17.9%, primarily due to a 41.0% increase in interest income and a 10.0 % increase in fee and commission income. The return on assets was 3.1%, and the return on equity was 17.9%, showing an increase of 0.2 percentage points and 0.9 percentage points, respectively, compared to the end of the previous year.

Liquidity Risk. The banking system traditionally maintains a substantial volume of liquid assets, affording it high resilience to shocks and capacity to further support lending in the real sector. Presently, all banks comply with liquidity requirements, indicating the presence of adequate funding sources to cover both short-term and long-term liquidity needs. The long-term liquidity ratio - the first principle of liquidity (with the permissible limit for each bank ≤ 1) for the sector as of 30 September 2023, stood at 0.66, practically on par with the end of the previous year. This ranged from 0.29 to 0.77, depending on the bank.

The indicator for liquidity coverage requirement for the sector reached 256.1% (limit ≥ 100% since 1 January 2023), showing an increase of 20.6 percentage points compared to the end of the previous year. This indicator ranges from 167.8% to 587.2%, depending on the bank. The liquidity reserve as of 30 September 2023, amounted to MDL 27 858.5 million, representing a 10.0% increase compared to 31 December 2022. Net liquidity outflows during the analysed period increased by 1.1%, amounting to MDL 10 749.9 million.

Insolvency Risk. Banks are well-capitalized, with the total own funds in the sector reaching MDL 20 515.6 million, representing a 11.8% increase over the first 9 months of the year 2023. The total own funds ratio is at a high level, adhered to by all banks. The own funds ratio in the banking sector, according to the data provided by banks, stands at 31.4%, showing an increase of 2.2 percentage points compared to the end of the previous year due to the growth in equity.

Additionally, all banks comply with the requirement for the "Total own funds ratio considering capital buffers". Moreover, all banks adhere to the additional capital requirement set by the NBM based on the results of the supervisory and evaluation process of banks' activities (SREP). Consequently, a high level of capitalization enables banks to form additional reserves in the event of asset quality deterioration without the risk of violating existing prudential requirements.

Stress testing. The banking sector's resilience to shocks is reaffirmed by the NBM stress tests, showing banks' robust capacity to absorb credit losses, even under extreme yet marginally plausible scenarios. These scenarios indicate a heightened materialization of credit risk. The stress tests conducted monthly on credit risk in the third quarter of 2023 have shown an improvement in banks' resilience to simulated scenarios, compared to the similar exercise from third quarter of 2022.

All banks within the banking system consistently meet the minimum 10% prudential requirement for the Total Own Funds Rate, set by the regulatory framework of the Republic of Moldova, except for one medium-sized bank under the most severe credit risk scenario. Credit risk remains the primary concern, with additional economic sectors scenarios revealing instances where banks could fail to meet solvency requirements. However, the frequency of such cases is decreasing compared to the previous quarters.

In addition to regular monthly credit risk stress testing, a macro prudential credit risk stress test is conducted on a quarterly basis. The exercise assesses the banking system's resilience under extreme but theoretically plausible adverse macroeconomic scenarios. Three scenarios were examined: a historical reference scenario, a domestic economic distress scenario impacting NPLs, and an international economic distress scenario. The impact of the domestic scenario as of the end of the third quarter of 2023 revealed potential own funds shortages in case of three out of eleven banks, with a system-wide own funds rate decline comparing to the similar stress test exercise as of the third quarter of 2022. The impact of the international scenario also showed a decline of the own funds rate compared 2022, with the number of non-compliant banks remaining constant.

Furthermore, a liquidity stress test which evaluates the banks' liquid asset level, including foreign currency holdings, is conducted on quarterly basis by applying deposits withdrawals and certain asset haircuts. As of the third quarter of 2023, no banks showed a deficit in total or foreign currency, residual liquid assets buffer after the shock amounting to MDL 43.4 billion and the equivalent of MDL 12.8 billion, respectively. This marks an improvement from the similar exercise from 2022 when the banking system registered a residual liquidity buffer after the shock amounting to MDL 27.3 billion in total liquidity and MDL 11.6 billion in foreign currency liquidity. In addition, a distinct simulation exercise was conducted to assess the banks' ability to endure a situation analogous to the bank run experienced between February and March 2022, triggered by the onset of the Russian invasion of Ukraine. This exercise evaluated the banks' resilience to withstand a comparable event. The results of the exercise indicate that all banks could withstand such a bank run at least for 30 days in a row.

A contagion stress test is conducted to evaluate the risk spill overs from the financial counterparts of banks in the Republic of Moldova. This exercise aimed to simulate the impact of a failure to receive funds placed by local banks with various counterparts. The stress test encompassed three distinct scenarios:

- the non-receipt of funds placed with any counterparty of each Moldovan bank;
- the non-receipt of funds placed with top-3 counterparts for each bank from the Republic of Moldova; and
- a scenario where funds from all counterparties in a specific jurisdiction are not received by each bank.

In the first scenario, no potential capital shortages were observed among the local banks, with each maintaining compliance with the own funds rate requirement of 10%. However, in the second scenario, one large and one medium-sized bank were found to be at risk of capital shortage due to the non-receipt of funds from their top three counterparties. In the third and final scenario, no deficiencies were identified in the capitalization of domestic banks, with all institutions meeting or exceeding the minimum own funds rate requirement.

Macro prudential framework Moldova. The Law No 209/2018 on the National Committee for Financial Stability outlines the legal framework of the Committee's activity and competences. The respective Law enforces that the National Committee for Financial Stability is the national macro prudential authority.

According to the Law No 209/2018, the ordinary meetings are being held quarterly, with the possibility of any member of the Committee to call for an extraordinary meeting. The Chair of the Committee is the head of the NBM, accompanied by the following members: Minister of Finance, Minister of Economic Development and Digitalization, Head of the National Commission of Financial Markets, and the General Executive Director of the Deposit Guarantee Fund. At the same time, the extended Committee also includes three vice-governors of the NBM who are responsible for the banking supervision, banking resolution, and financial stability, as well as the head of Financial Stability Department. The Committee has the attribution to analyse and review periodically the set of macro prudential instruments applied in the Republic of Moldova, as well as to issue recommendations on the recognition of foreign macroprudential instruments applicable in the Republic of Moldova.

At the ordinary meeting of the National Committee for Financial Stability held on 15 September 2023, the Strategy on Macroprudential Policy was approved, a document that establishes the operational framework for achieving the objectives of the macroprudential policy, in order to ensure the transparency and predictability of the decision-making process. The Strategy was developed and approved in accordance with the provisions of Law No 209/2018 on the National Committee for Financial Stability, as well as based on the recommendations of the European Committee for Systemic Risk (CERS/2011/3 and CERS/2013/1) on the macroprudential mandate of the national authorities and on the intermediate objectives and instruments of macroprudential policy.

The Law No 548/1995 on the National Bank of Moldova was amended (by Law No 178/2021, in force as of 29 November 2021) by introducing that, without prejudice to the primary objective, the NBM shall aim at ensuring the stability and viability of the banking system.

The Regulation on capital buffers, approved by the Decision of the NBM Executive Board No 110 of 24 May 2018 (in force as of 30 July 2018) establishes the framework for capital buffers.

Currently, three out of four capital buffers are set at a level higher than zero:

- capital conservation buffer is 2.5% of the total risk exposure, effective since 30 July 2018; the respective rate applies to all banks licensed to operate in the Republic of Moldova;
- capital buffer rates for other systemically important banks, ranging between 0.5% and 1.5% of the total amount of risk exposure. According to the latest calculations as of 31 December 2022, there are 4 systemically important banks;
- currently, the systemic risk buffer rate constitutes 1% of domestic risk exposures and applies to all banks;
- since 3 August 2018, the countercyclical capital buffer rate applied to credit exposures in the Republic of Moldova is 0% of the risk exposure amount; by its latest Decision No 209

of 26 October 2023, the NBM Executive Board decided to maintain the rate of the countercyclical capital buffer for domestic exposures at the same level.

As macroprudential measures recommended for implementation by national macroprudential authorities to achieve the intermediate objective of preventing and/or limiting excessive credit and debt growth, the NBM Executive Board, by its Decision No 101 of 19 May 2022, approved the Regulation on responsible consumer lending by banks[1], in force as of 1 July 2022.

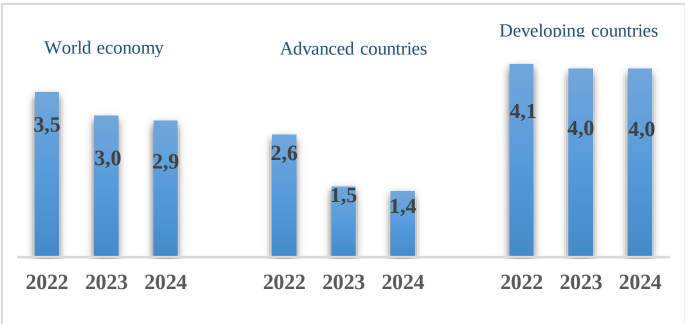
Therefore, the loan-to-value ratio applies to residential real-estate new loans to households and cannot exceed 80 %, and if the loan is partially and/or fully offset and/or guaranteed by the state (e. g. under *First Home Programme*) or is partially guaranteed by bank deposits – the LTV limit will be calculated considering the offset and/or guaranteed credit share (to be deducted).

At the same time, the debt service-to-income (DSTI) ratio applies to household new loans and should not exceed 40 % of the borrower's confirmed net income. The Regulation also provides for some exceptions aimed at ensuring access to finance and levelling the DSTI limit for households with higher or irregular income.

Also, to achieve the goal pursued by the introduction of DSTI, the maximum maturity of the loan granted to the household was limited to 5 years for consumer loans and 30 years for loans for real estate investments. A similar act has concurrently approved by the National Commission for Financial Markets for the non-bank lending market - the Regulation on responsible lending requirements for non-bank lending organizations[2].

3.2 Medium-term macroeconomic scenario

Chart 3.8. Global economic growth forecast 2023-2024 (in % of previous year)



Source: World Economic Outlook, International Monetary Fund, October 2023

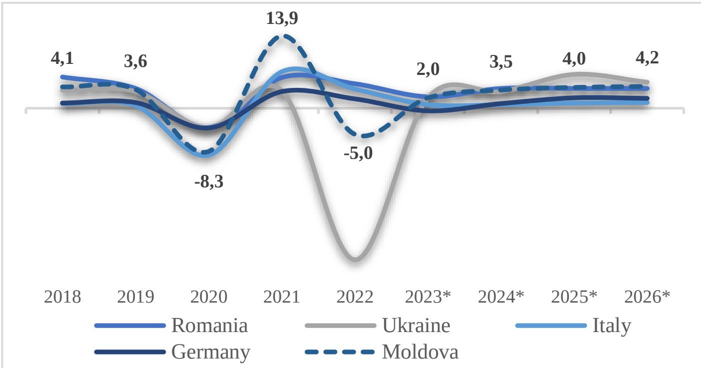
Global outlook and assumptions. The global economy continues to be affected by a series of destabilizing shocks, while the global recovery from the pandemic and the war remains slow and uneven. Despite some signs of recovery earlier this year, the global economy has not reached the pre-pandemic levels. The long-term consequences of the pandemic, the war in Ukraine and the increasing geo-economic fragmentation, as well as cyclical factors such as the effects of monetary policy tightening, the withdrawal of fiscal support and extreme weather conditions are the main factors hampering the global economic recovery.

[1] Regulation on responsible consumer lending by banks https://bnm.md/files/Regulamentul%20privind%20creditarea%20responsabila%20a%20consumatorilor%20de%20catre%20banci.pdf

[2] Regulation on responsible lending requirements for non-bank lending organizations https://www.legis.md/cautare/getResults?doc_id=131857&lang=ro

According to the International Monetary Fund estimates, the slowdown in economic growth will gradually reduce inflationary pressures. Thus, headline inflation will fall from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024, but in most countries the inflation will not return to target until 2025. In the context of the global economic slowdown by 2025, fuel prices will fall on average by 36%, oil by 17%, and gas and coal by 61% and 51%. Other commodity prices are forecast to decline by 6.3% in 2023, driven largely by the situation in China's real estate sector. At the same time, food prices, after rising by 14.8% in 2022, will fall by 6.8% in 2023, remaining well above the 2021 level.

Chart 3.9. Economic prospects in the main trading partners of the Republic of Moldova, %



Source: World Economic Outlook, International Monetary Fund, October 2023 (forecast)*

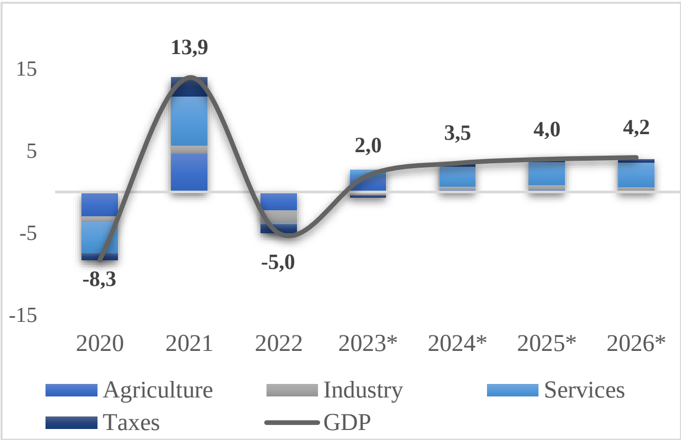
The economic prospects for the main trading partners of the Republic of Moldova are positive: the economic growth of Romania, the country to which 35 % of our exports are directed, is estimated at 2.2% in 2023, due to tightening financial conditions and insignificant economic growth in partner countries, and 3.8% for 2024-2026. For Ukraine (which accounts for 16% of our exports), a country dramatically affected by the war, after a 29.1% decrease in the previous year, an increase of only 2% is estimated for 2023, influenced by the adaptation of domestic demand to war conditions, and 3.2% for 2024. The growth should accelerate during the next years, being conditioned by the evolution of the war. At the same time, the extremely high degree of uncertainty and the lack of statistical data on the real economic situation in the country do not allow for a qualitative forecast.

After the economic downturn caused by the war in Ukraine, the energy crisis, accelerated inflation, disruptions in global value chains and dry weather conditions, a modest economic recovery (+2%) is expected in 2023 in the Republic of Moldova, largely supported by the fiscal impulse and the relaxed monetary policy. However, the outlook remains highly uncertain, with significant downside risks. Escalating war and renewed energy shocks could worsen the outlook. Developments in the forecast years will depend almost entirely on the war prospects.

GDP by production approach. On the supply side, in 2023 GDP will be boosted by the agricultural sector and in the following years mostly by services and industry. After a sharp decline in agricultural production in 2022, a partial recovery of the agricultural sector (+23%) is expected in 2023, as an impact of the persistent moisture deficit in the lower soil layers, due to high summer temperatures and acute lack of rainfall in some regions of the country. For the following years (2024-2026), agricultural production is expected to increase by about 2.5% on average per year. Unfavourable weather conditions and a more pronounced alternation of extreme natural phenomena, higher raw material prices, especially for fertilizers and fuels, limited investment capacities of economic agents, and declining soil fertility are the main risks of non-realization of the agricultural sector forecast.

The industrial sector continues to be affected by the complicated economic situation in the region, the effects of the energy crisis and the decrease in external and domestic demand. Thus, towards the end of 2023, the industrial sector is expected to decrease by about 3.5%, and in the following forecast years (2024-2026), the industrial sector will gradually recover and grow by about 4% per year, increases that will be conditional on the stabilization of the situation in the region, improving external and domestic demand, increased agricultural production, which will support the food industry, active policies to improve the business environment and support industries with high growth potential, and progress in the implementation of the National Industrialization Programme.

Chart 3.10. Economic growth structure by production approach (contribution to growth, p.p.)



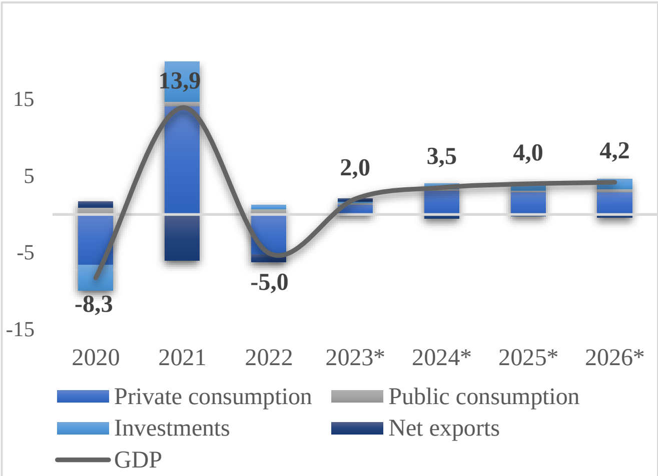
Source: NBS and MEDD estimations (forecast)*

With a share of more than 60% of GDP, the services sector has a dominant position in the national economic recovery. The data indicate that this sector is still growing and will sustain the economy this year and forward. The sub-sectors providing services for recreation, leisure, accommodation and food, information and communication, etc. will increase, while construction activity will decrease significantly, being strongly affected by the decrease in demand, in the context of the uncertainty of the war, the reduced financial possibilities of economic agents to invest and the decrease in the real disposable income of the population. Overall, we estimate that in 2023 the GVA created in the service sector will increase by 1.6%, and in the following forecast years, if the situation in the region improves and price growth moderates, demand for services will strengthen and grow by an average of 3.5 - 4%. The most important factors that will contribute to the growth of the services sector are the rebound in domestic demand, due to lower level of inflation and growth of the population income, the support for the specific sectors such as the ICT, BPO sector, increase of the efficiency of the public services etc.

GDP by income approach. On the demand side, in 2023 a relative positive impact from consumption and net exports is expected, and less from investment. The actual crises have a significant influence on consumption, as it is affected by the reduction in purchasing power of the population due to lower real disposable income. However, in the context of monetary policy easing and lower interest rates, there are signs of improvement in lending to individuals, creating the conditions for a recovery in consumption. Thus, for 2023 we expect consumption to grow by around 1%, and in 2024-2026 by around 3-3.5% annually.

After the drastic decrease in 2022 (-11.9%), being constrained by the high uncertainties created by the war in Ukraine and the restrictive monetary policy, investments are expected to recover during the forecast period. Investment activity will be supported by investment in public infrastructure, mainly financed by development partners, but will not be sufficient to compensate for the previous year's decline in investment. Against this background, total investment is expected to increase by around 1-1.5% in 2023 and in the following years (2024-2026), if the situation in the region stabilizes, a stable growth of around 5% per year is expected. The main factors that will support investments are: the gradual recovery of lending, due to the easing monetary policy, the efficient implementation of the *Government investment program 373*, the fiscal support to SMEs by approving a zero-rate on undistributed income, a series of financing programmes offered to the business through Organization for the Development of Entrepreneurship (ODA).

Chart 3.11. Economic growth structure by demand approach (contribution to growth, p.p.)



Source: NBS and MEDD estimations (forecast)*

Weak developments in the industrial sector, stagnating domestic consumption and external demand influenced international trade in 2023. An important factor in the development of exports will be the positive outcome in the agricultural sector, which, to some extent, will boost exports of agri-food products. Thus, for the year 2023 we anticipate a decrease in exports of goods of around 5%. In the following forecast years 2024-2026, exports are expected to grow by an average of around 9%, driven by positive developments in the productive sectors, exploitation of opportunities offered by cooperation agreements, more intensive promotion of exports on the EU market, identification and penetration of new markets. An important factor that will boost export growth is the one-year extension of trade liberalization between Moldova and the EU. It is also worth mentioning the signing in 2023 of the agreement with EFTA countries, which will strengthen economic cooperation between countries and facilitate trade in goods and services.

As for imports, domestic demand and falling world prices for energy resources, the military conflict in the neighbouring country are factors that will lead to a decrease in imports of goods by about 3.2% in 2023, while in 2024, rising private consumption, fuelled mainly by wage income and remittances from abroad, and the recovery of economic activity will positively influence the demand for imported goods. Also, noteworthy is the expected recovery in lending in the forecast years and its expected effect on investment growth, which in turn will contribute to higher imports. In the years to come, imports are expected to grow at an average annual rate of around 7%, depending on the needs of covering consumption and supplying the productive sector with raw materials.

Labour Market. Thanks to projected positive economic developments, employment indicators are expected to improve. On the one hand, the projected economic growth increases the demand for labour and, on the other hand, higher remuneration of employees will positively influence the labour supply. At the same time, active employment measures and programmes, as well as support to domestic and foreign enterprises geared towards job creation, will further contribute to an increase in the number of employed persons. According to the macroeconomic baseline scenario, in 2023 the employed population is expected to rather stagnate, driven by the delayed pass-through of the effects of the 2022 recession on the labour market. Thereafter between 2024 and 2026 employment will increase annually at a rate of 1.5-2%. Thus, by 2026 the employed population will be 902 thousand people and the employment rate will improve in 2026 compared to 2022 and increase from 40.5% to 44.8%. In the coming years, the distribution of the employed population by economic activity will not change significantly. In the medium term, 78-79% of employed people will work in 7 sectors: agriculture (21-22%), manufacturing (12%), construction (7-8 %), trade (15.5-15.8%), transport and storage (7.6-7.7%), education (10.4-10.7%) and health (6.6-6.7%).

In 2024, wages are expected to further increase by 10% contributed primarily by increased minimum wage by about 25%, as well as increased wages in the education sector by 15%. Accordingly, wages in the industrial and the services activities are expected to grow, above all in the high-productivity activities, such as information and communication activity, professional, scientific and technical activities. In the medium term, nominal growth of average wage in the period 2024 - 2027 is expected to be around 9% annually and about 4% in real terms.

Sources of growth. In 2023 the output gap[3] continues to be in a negative zone since 2022, which indicates a sub-utilization of existing production factors and reflects the effects of the Russian invasion to the neighbouring country (including the huge increase of production costs, disruption of external logistic chains). According to our projections, it will enter the positive zone only in 2025.

Chart 3.12. Output Gap (% of potential product)

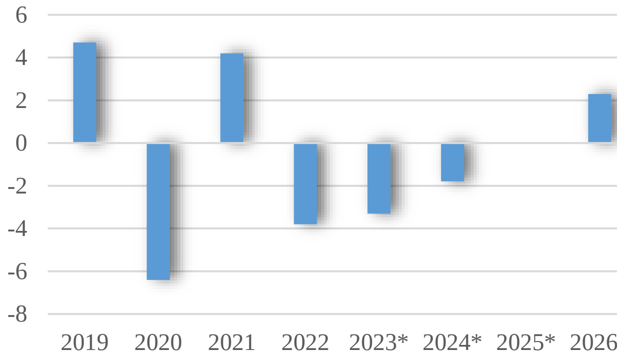
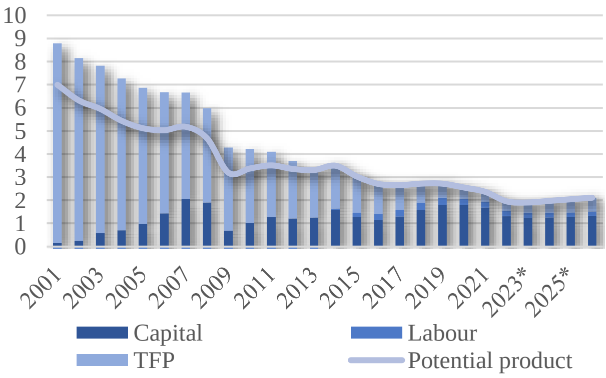


Chart 3.13. Potential Product Growth

(%, contributions in percentage points)



Source: Calculations of MEDD (forecast)*

The potential growth continued a slowdown trend until 2023 being affected by COVID pandemic and the invasion in Ukraine. A gradual intensification of potential growth is expected, starting with 2024, due to Total Factor Productivity (TFP) and capital factor, while the impact of labour force will be in slight decline.

[3] The concept of potential output and output gap is used for estimation of the cyclical position of the economy and the analysis of factors of growth. The calculations of potential output were made on a base of production function utilizing the Hodrick-Prescott filter

Monetary and exchange rate policy and inflation

Pursuant to the statutory powers set out in the provisions of the Law No 548/1995[4] on the National Bank of Moldova, the NBM sets and implements the monetary and foreign exchange policy. According to the Medium-term monetary policy strategy of the NBM[5] (approved by the Decision of the NBM Council of Administration No 303 of 27 December 2012), to ensure and maintain price stability, the central bank will implement the direct inflation targeting regime. However, consistent with the inflation target of 5.0% as the nominal anchor for monetary policy, the NBM will implement a managed floating exchange rate regime without having a pre-established target for the MDL exchange rate.

The NBM sets the inflation target of 5.0% annually with a possible deviation of ± 1.5 p.p. calculated using the consumer price index. The inflation target will be achieved using the main monetary policy instrument – open market operations (OMO). At the same time, the NBM will also use complementary monetary policy instruments, such as: standing facilities, required reserve ratios, and interventions on the foreign exchange market.

To achieve the targeted inflation, the monetary market conditions are guided by the NBM through the base rate, which is set by the NBM Executive Board and is the main indicator for the interbank monetary market in the short run.

The exchange rate regime of the Moldovan Leu is a managed floating one, which allows flexible adjustment of the national economy to the external and internal shocks. NBM reserves the right to intervene on the foreign exchange market to smooth out the excessive fluctuations of the official exchange rate, to stop any speculative operations and to build up the international foreign exchange reserves without negatively influencing the inflation target achievement.

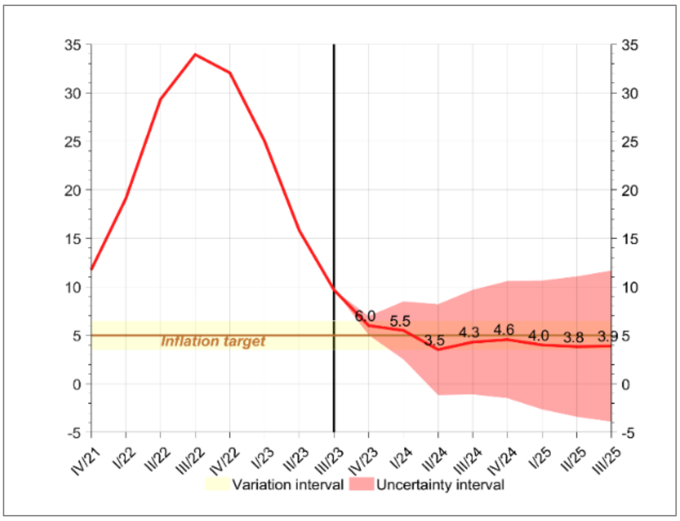
In line with the current practice, the NBM determines the exchange rate of the Moldovan Leu against the current reference/intervention currency, US dollar while the exchange rate of the Moldovan Leu against the euro and other foreign currencies is calculated by applying the cross-rates. Given the growing significance of the euro in Moldova's financial flows, the central bank is assessing the possibility of switching to euro as the reference/intervention currency.

Inflation. According to the *Inflation Report No 4, 2023*[6], the annual inflation rate will continue its downward trend during the first three consecutive quarters of the forecast; subsequently, it will increase until the end of 2024 and decrease insignificantly for the rest of the forecast horizon[7].

[4] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995
[5] https://www.bnm.md/en/content/medium-term-monetary-policy-strategy-0
[6] https://www.bnm.md/ro/content/raportul-asupra-inflatiei-nr-4-2023
[7] Fourth quarter of 2023 – third quarter of 2025

In the fourth quarter of 2023, the annual inflation rate will fall below the upper limit of the variation range and will remain within its limits until the end of the forecast period.

Chart 3.14. CPI with uncertainty interval (%, compared to previous year)



Source: National Bureau of Statistics, NBM calculations.

The negative impact of factors such as:

(1) the accumulated decline in imported inflation until the third quarter of 2023 and its low rates in the first quarter of the forecast;

(2) significantly negative aggregate demand;

(3) the continuation of the downward trend in the prices of food products on the international market in the fourth quarter of 2023;

(4) recent and anticipated downward adjustments to some tariffs;

(5) the anticipation of a decrease in oil prices on the international market starting from the first quarter of 2024; but also

(6) the high base from the previous year will cause the annual rate of inflation to decrease.

But, (i) anticipating an upward trend in food prices on the international market starting in 2024 and up to the first half of 2025, (ii) adjustment of excise taxes in early 2024 and 2025, (iii) impact of strongly seasonal products in the second and third quarters of 2024 and 2025, (iv) the increase in oil prices on the international market until the fourth quarter of 2023 will attenuate the downward revision of the annual rhythm.

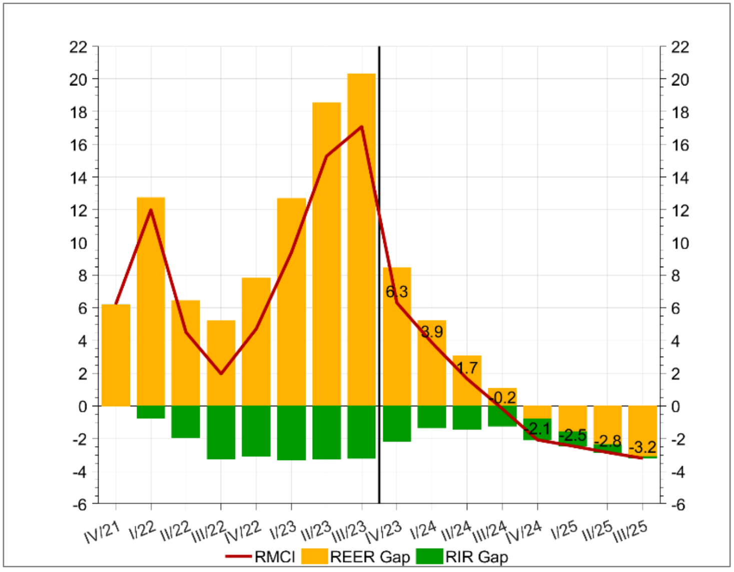
According to the latest round, the annual inflation rate will peak at 6.0% in the fourth quarter of 2023 and will reach a low of 3.5% in the second quarter of 2024. Average annual inflation rate will be 13.6% in 2023 and 4.5% in 2024.

Real monetary conditions for aggregate demand will be restrictive until the first half of next year and stimulative for the rest of the forecast horizon.

Monetary policy via the real effective exchange rate will be restrictive until the third quarter of 2024, after stimulative; via the real interest rate will exhibit a stimulative character over the forecast horizon.

The accumulated real appreciation of the national currency increased the deviation of the real effective exchange rate from its equilibrium level until the third quarter of 2023, contributing to amplifying the restrictive effects on aggregate demand. In the first half of the forecast horizon, it is anticipated that the restrictive character of the real effective exchange rate will decrease and, starting from the second half, its stimulative character will increase.

Chart 3.15. Real monetary conditions index and decomposition



Source: NBM calculations

The required reserves regime is an important auxiliary monetary policy instrument in the NBM's toolkit, that has been actively used in recent years to manage the excess liquidity in the banking system. During the first three quarters of 2022, the NBM has gradually increased, by 14 p.p. the required reserves ratio (RRR) in domestic currency and by 15 p.p. the RRR in foreign currency up to 40% and 45%, respectively, to counter persistent inflationary pressures. Considering the shift in inflationary expectations towards the end of 2022, the NBM has decided to decrease in 2 steps, cumulatively by 6 p.p., the RRR in domestic currency, down to 34%. The RRR in foreign currency was kept stable, widening the gap between RRRs, aiming to increase the efficiency of monetary transmission.

Due to the downward path of the inflation rate which has returned within the variation band of the target (5% +/-1.5 p.p.) in November 2023, the NBM has decided to decrease the RRR in domestic currency by 1 p.p., down to 33 %, and the RRR in foreign currency by 2 p.p., down to 43%, effective of 16 December 2023.

External sector and its medium-term sustainability. In 2022, the current account deficit of the balance of payments of the Republic of Moldova increased substantially compared to 2021, both in absolute value and as a share of GDP. The deficit amounted to EUR 2.36 billion, increasing by 64.2%. Relative to GDP, the current account deficit accounted for 17.3% (−5.4 p.p. compared to 2021). This dynamic was due to the increase in the deficit of external trade in goods (by EUR 1.39 billion) and the decrease in primary income surplus (by EUR 0.17 billion). The surpluses in balance of services increased by EUR 0.46 billion and of secondary income balance – by EUR 0.17 billion, however, insufficiently to cover the impact of trade in goods and primary income evolution on current account deficit.

The external trade in goods deficit registered in the balance of payments, in 2022, increased by 39.3% and amounted to EUR 4.93 billion, as a result of a more significant increase in imports of goods (by 48.1%, up to EUR 8.45 billion), while the exports of goods increased by 62.4%, up to EUR 3.52 billion. One of the drivers of the import increase was the growth of mineral products imports, which increased by 2.9 times up to EUR 2.63 billion. At the same time the evolution of exports of goods was partly influenced by the growth in the re-exports of mineral products to Ukraine, from EUR 0.01 billion in 2021 to EUR 0.54 billion in 2022, as a result of the exceptional situation in Ukraine. At the same time, agri-food products remained the main category of exported goods from the Republic of Moldova, growing by 52.3%, up to EUR 1.81 billion, mainly due to the growth in vegetable products exports.

The surplus of the balance of services increased by 2.2 times compared to 2021, up to EUR 0.86 billion and registered the highest value of the last years. This evolution was due to the growth, by 56.7% (up to EUR 2.17 billion) in the exports, while imports increased by 32.6% (up to EUR 1.30 billion). The main categories of exported services were travel (32.7% of the total), transportation (22.0% of the total) and IT services (20.6% of the total). In imports, the main categories were transportation (40.6 % of the total) and travel (31.3% of the total).

The primary income surplus decreased by 74.8% and registered EUR 0.06 billion, determined by higher growth in investment income net outflows (+44.3% up to EUR 0.64 billion) than the increase in net income inflow recorded in compensation of employees (+4.0% up to EUR 0.69 billion).

The positive secondary income balance increased by 11.8% compared to 2021, up to EUR 1.66 billion. Personal transfers received by Moldovan residents from abroad increased by 9.9%, to EUR 1.14 billion, while their outflows increased by 2.4 times, up to EUR 0.39 billion. The value of technical assistance, humanitarian aid and grants received within international cooperation by all institutional sectors increased by 81.1% and registered EUR 0.54 billion, the highest value of the last years, being also intended for the needs of refugees.

In 2022, personal remittances inflows increased by 8.5% compared to 2021 (up to EUR 1.89 billion or 13.7% as a ratio to GDP), while remittances paid to non-residents increased by 57.9% (up to EUR 0.57 billion). The largest share of personal remittances inflows - 49.2% of the total – came from EU, being by 5.2% lower than in 2021. The share of remittances for the Commonwealth of Independent States accounted for 22.3%, and that of other countries - 28.5%.

The capital account recorded, for the first time in the last five years, net inflows of EUR 0.02 billion, determined specially by the net inflows of the technical assistance of the general government (+84.6% compared to 2021) amounting to EUR 0.04 billion (0.1% to GDP).

The sum of the current account and capital account balances shows that, as a result of the current and capital transactions of the residents of the Republic of Moldova with non-residents, the net borrowing amounted to EUR 2.34 billion, or 17.2% of GDP.

In 2022, the financial account recorded a net inflow amounting to EUR 2.32 billion, as a result of the net increase in residents' liabilities to non-residents by EUR 1.61 billion generated by actual transactions, and a net decrease in residents' external financial assets by EUR 0.71 billion.

The main sources of financing of the current account deficit were net inflows of currency and deposits, EUR 1.52 billion, loans EUR 0.70 billion and direct investment EUR 0.51 billion.

The net decrease in assets during 2022 was driven by a EUR 1.45 billion decrease in assets in the form of currency and deposits, more than doubled as compared to the previous years. At the same time, the official reserve assets of the NBM increased by EUR 0.61 billion (3.5 times more than in 2021). Assets in loans increased by EUR 0.49 billion, trade credits and advances by EUR 0.44 billion, direct investment by EUR 0.42 billion, and portfolio investment by 0.01 billion.

The net increase in liabilities, during 2022, was due to the increase in loans by EUR 0.75 billion (drawings EUR 1.15 billion and repayments EUR 0.40 billion). Drawings were represented, mostly, by new loans contracted by the general government during 2022. Liabilities in the form of direct investment increased by EUR 0.56 billion, due to the reinvestment of earnings amounting to EUR 0.45 billion, the net increase in equity participations and shares of non-residents by EUR 0.09 billion and of accumulation of debt instrument amounting to EUR 0.02 billion. The growth in liabilities was also determined by the increase in trade credits and advances by EUR 0.23 billion and currency and deposits by EUR 0.07 billion, etc.

As of 31 December 2022, the international investment position of the Republic of Moldova amounted to EUR 5.81 billion, deepening as compared to the end of 2021, by 25.7%. External financial assets position amounted to EUR 6.1 billion, 7.5% more that at the end of 2021, while liabilities position increased by 15.7%, amounting EUR 11.93 billion.

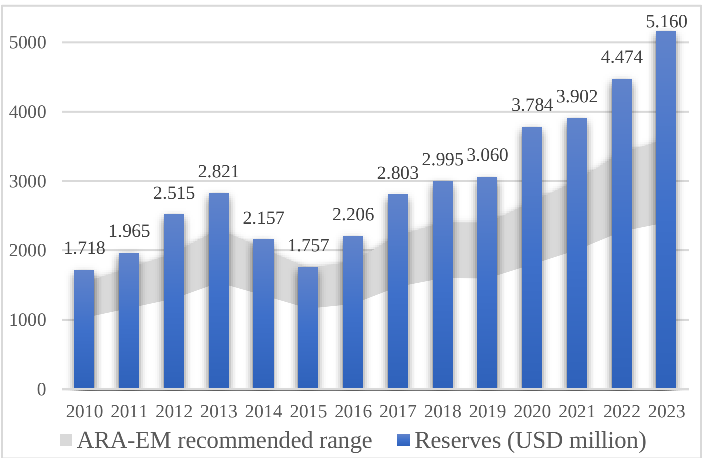
The gross external debt of the Republic of Moldova as of 31 December 2022 increased by 16.8% during 2022 and totalled EUR 9.02 billion or 66.1 % to GDP. The public external debt accounted for 34.0% of the total external debt, amounting to EUR 3.07 billion, 27.2% more since the beginning of the year. The private external debt amounted to EUR 5.95 billion, by 12.1% more than at the end of the 2021, representing 66.0% of the total external debt.

REER developments. The real effective exchange rate (REER)[8] has been rising steadily since mid-2021 due to Moldova's high inflation rate and the significant depreciation of the currencies of some of its major trading partners. The second half of 2023 has seen a stabilization of the REER, as the price rises slowed down significantly.

In the first ten months of 2023, the nominal appreciation of the Moldovan Leu against most of the currencies of the main trading partners led to the appreciation of the nominal effective exchange rate (NEER) by 16.4%. The increase in NEER was somewhat offset by Moldova's slower inflation when compared to its trade partners' CPI dynamics, which resulted in a 12.4% appreciation of the REER. The largest contribution to the REER appreciation came from the real appreciation against the Russian Rouble and the Romanian Leu.

Foreign reserves sufficiency. As of 30 November 2023, the official reserve assets of the Republic of Moldova reached a new historical level, amounting to USD 5 160 million. The reserves are projected to continue on a growth path in 2024, which will be supported mainly by the inflows of loans and grants from external development partners and will continue to be well above the minimum levels of the recommended reserve adequacy indicators. The current volume of official reserve assets ensures a sufficient coverage of future imports of goods and services (5.8 months of future imports). Likewise, the projected ARA-Metric indicator for the Moldova for 2023, according to the latest IMF report (October 2023), is 200%, above the recommended range of 100%-150% and one of the highest in the region (Chart 3.16.).

Chart 3.16. Foreign reserves adequacy



Source: IMF, NBM calculations

Financial sector

Maintaining the stability of the financial system, its further development and increasing intermediation remain the main priorities in the area of the financial system. Therefore, the following activities will be undertaken:

[8] The NBM calculates NEER as the geometric weighted average of a basket of bilateral exchange rates, and the REER is the NEER adjusted with the corresponding relative consumer prices as the main deflator. An alternative index is calculated using the relative producer prices as deflator. The weights are calculated as the shares of 17 main trade partners in Moldova's foreign trade (imports and exports of goods and services). The weights are time-varying and are applied as three-year averages from the base year 2000, using the chain-linking method.

- considering that the EU draft (CRD6/CRR3) aiming to finalise the implementation of Basel III international agreements into EU law, the IRB (internal rating based) provisions on credit and market risk are planned to be transposed into Moldovan law by the end of the year 2027.
- NBM Regulation No 44/2020 on liquidity coverage requirements for banks will be amended by December 2024 in order to regulate the net stable funding ratio (NSFR) and to update the provisions related to the liquidity coverage ratio (LCR), thus harmonizing the banking regulations with provisions of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and Regulation (EU) No 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.
- NBM Instruction No 117/2018 on the submission by banks of COREP reports for supervisory purposes will be supplemented for the purposes of reporting the net stable funding ratio (NSFR) and amended in the part referred the provisions related to the reporting of the liquidity coverage ratio (LCR) for banks by December 2024. The respective amendments will transpose the provision of Commission Implementing Regulation (EU) 2021/451 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014.
- Law No 62/2008 on foreign exchange regulation will be amended, in order to liberalize capital foreign exchange operations, as well as to amend the provisions related to the introduction and withdrawal of unaccompanied cash, planned to be modified by March 2025, thus further harmonizing it with Council Directive No 88/361/EEC of 24 June 1988 for the implementation of Article 67 of the Treaty and Regulation (EU) 2018/1672 of the European Parliament and of the Council of 23 October 2018 on controls on cash entering or leaving the Union and repealing Regulation (EC) No 1889/2005.
- Law amending the Law on the business of insurance or reinsurance is planned to be adopted by March 2026. The Law will be fully harmonized with Directive 2009/138/EC on the taking-up and pursuit of business of Insurance and Reinsurance (Solvency II), by transposing Pillar I of the Directive 2009/138. The Law will provide for compatibility and competitiveness of the domestic insurance industry with the one of the EU Member States and for increased security and stability of the insurance sector, enhancing the insured persons' protection. Capital requirements on operations of insurance companies will be strengthened, supervisory measures will be prescribed, adequate to the irregularities identified in the operations of the companies, and efficient mechanisms on protection of the rights of consumers of insurance services will be established.

To harmonise the national legislation further dynamically with the EU *acquis*:

- Law No 114/2012 on payment services and electronic money transposed into Moldovan legislation: Directive 2007/64/EC on payment services in the internal market and Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions. In 2022, by Law No 209/2022 on the amendment of some normative acts (which also included amendment to the mentioned Law No 114/2012), Directive (EU) 2015/2366 on payment services in the internal market was transposed into Moldovan legislation. Thus, from 5 August 2024 the Law No 114/2012 on payment services and electronic money will provide the conditions of access and activity of providers of account servicing payment service providers and payment initiation services providers.
- NBM has transposed Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro into the NBM Regulation No 108/2023 on credit transfers, direct debits and the assignment of IBAN codes, in the context of

the preparation of the accession dossier of the Republic of Moldova to the Single Euro Payments Area (SEPA).

- Law No 234/2016 regarding the Single Central Securities Depository is partially harmonized with Regulation (EU) No 909/2014 on improving the settlement of securities in the European Union and on central securities depositories. According to the National Action Plan for the Accession of the Republic of Moldova to the EU, till June 2025 the Law No 234/2016 will be fully harmonized with Regulation (EU) No 909/2014.

In order to further improve the recovery, resolution and liquidation framework for banks, including by implementation of IMF recommendations[9] in order to align Republic of Moldova's legislation with the EU *acquis* on financial services sector, the following actions are planned:

- Amending, by April 2024, the Law No 232/2016 on the recovery and resolution of banks for the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and Directive (EU) 2019/879 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC. The proposed amendments will further harmonize the national legislation with Directive 2014/59/EU, in particular with regard to the provisions related to minimum requirement of own funds and eligible liabilities, relevant in the context of the use of bail-in tool, which aims to guarantee that banks have a sufficient loss-absorbing and recapitalisation capacity. At the same time, the proposed amendments specify the financing conditions, within the framework of application of resolution tools, from the account of the resolution fund and the bank deposit cover fund and establish new competences for NBM, as resolution authority. Also, the draft amendments contain adjustments for several provisions, which were identified as necessary to operationalize the application of resolution powers, clarify some aspects, or update some legal references therein.
- Comprehensive review, by September 2024, of the bank liquidation framework in order to strengthen the liquidation procedures.

3.3. Alternative scenarios and risks

The baseline scenario presented in the MTBF (2024-2026) is subject to certain risks, which may adversely change the macro fiscal picture, depending on the likelihood of materialisation and the intensity with which these risks are realised. For reasons of prudent planning when developing the macro fiscal framework, these risks are also taken into account, the details of which are described below. As in the previous year, risks continue to be significantly high, especially those coming from the external environment, with economic, political and social impacts, the most important being the following.

External risks:

- aggravating geopolitical tensions worldwide, with a direct impact on the global economic environment;
- deepening the regional energy crisis, possible external shocks in oil, natural gas prices, etc.;

[9] The need to develop the presented draft emerges from one of the commitments agreed by the Republic of Moldova with the International Monetary Fund within the Memorandum of Economic and Financial Policies (MEFP) of 30 November 2021 (with subsequent amendments). This commitment (referred to in para. 21 of the MEFP of 4 April 2023), provides for the revision of *Law No 232/2016 on the recovery and resolution of banks* in order to update, first of all, the provisions related to the minimum requirement for own funds and eligible liabilities (MREL requirement). The draft law amending the Law No 232/2016 was developed within the technical assistance provided by the World Bank experts and was consulted with the International Monetary Fund.

- maintaining global cost inflation, with a negative impact on economic activity and external demand;
- social tensions in the US and EU countries can also contribute to increasing uncertainty about the outlook for global economic development.

Internal risks:

- maintaining pro-inflationary pressures from costs that will affect economic activity and domestic demand;
- unfavourable climatic conditions, which are difficult to predict, may contribute to a decrease in the volume of agricultural production, with repercussions on the industrial sector and exports;
- increasing macroeconomic imbalances, especially related to labour shortages in the labour market, may contribute to increasing the vulnerability of the national economy;
- excessive fluctuations in the exchange rate of the national currency can negatively influence the activity of economic agents**.**

Macro-budgetary risks in the medium term:

The main risks and uncertainties identified to which the budget might be exposed include the following:

- insufficient sources of financing of the budget deficit and the need to identify them jeopardise the possibilities of financing committed budget expenditures;
- risks associated with budget expenditure;
- risks associated with budget revenue.

4. FISCAL FRAMEWORK

4.1 Policy strategy and medium-term objectives

The 2024-2026 Medium-Term Budgetary Framework (MTBF), approved by Government Decision No 408/2023, establishes objectives of the budgetary-fiscal policy, the main macroeconomic and budgetary indicators in the medium term. The key documents that determined the direction and development of the Government's policies and that provided the basis for establishing the policy priorities included in the MTBF 2024-2026 are: The Government Activity Programme *Prosperous, Safe, European Moldova*, the National Development Strategy *European Moldova 2030*, National Development Plan for the years 2023-2025, as well as the commitments made towards the development partners. At the same time, as appropriate, the policies were correlated with the fundamental criteria for joining the EU and aligned with the EU *acquis*.

In the medium term, the priorities of the budgetary-fiscal policy will be directed towards fiscal consolidation and increasing the efficiency, performance and transparency of public finances, which will create the conditions for reducing the national public budget deficit as a percentage of GDP, as follows: 4.9% in 2024, 3.8% in 2025 and 3.4% in 2026.

The main objectives of the tax policy will be aiming at strengthening economic growth, stimulating the demand and supply of work, reducing the shadow economy and gradually connecting the fiscal system to the provisions of the EU *acquis*.

Achieving these objectives is expected through the implementation of the following policy measures: increasing the resilience of natural persons through fiscal instruments, implementing tax mechanisms to attract and maintain qualified labour, revising the processes for calculating and paying taxes and fees in order to simplify and clarify the legislative and regulatory framework, identifying the levers that would create premises for reducing the *salary in the envelope*, improving the tax and customs administration by expanding the range of instruments available for intervention, in order to reduce the shadow economy and reduce the interaction between the taxpayer and the tax official, the continuation of the harmonization of national legislation at the provisions of the EU *acquis*.

The tax administration policy in the medium term will be oriented towards ensuring correctness, coherence and transparency in this area. The customs administration policy will be focused on facilitating the transition process of goods and passengers, as well as on improving the methods of ensuring the economic security of the Republic of Moldova.

In the field of public expenditures, the general objective will consist in strengthening the stability and sustainability of public finances, ensuring budgetary discipline. Following them, the Government will have resources to support the population affected by the extreme events that took place recently, the continuation of the economic recovery, the support of investments, the assurance of a sustainable public debt.

The fundamental objective of the state debt management is to ensure the financing needs of the balance (deficit) of the state budget at an acceptable level of expenditures in the medium and long term, under the conditions of limiting the risks involved.

In order to achieve the fundamental objective, the following specific medium-term state debt management objectives will be prioritized:

- development of the internal market for government securities;
- contracting external state loans, taking into account the cost-risk ratio;
- managing the risks associated with the state debt.

4.2 Budget implementation in 2023

The main objective of the Government for the year 2023 was to promote a fiscal policy that would ensure budget sustainability and the responsible management of public finances. In the period from January to October 2023, the total revenue collection of the national public budget (NPB) was about 80.4% of the planned amounts for the year and 12.8% higher than in the same period of the previous year.

Of this amount, a major part of the NPB (National public budget) revenue or about 62% is the tax revenue. Compared to the same period last year, tax revenues increased by 9.3%, due to the 23.8% increase in excise duties, 14.1% - in income taxes, 11.5% - in property taxes, 4.0% - in foreign trade taxes and 3.6% increase in value added tax revenues.

A significant increase in the mentioned period was generated by income taxes collection, out of which - 14.1%, due to personal income tax by 21% and 9.4% - corporate income tax. Personal income tax receipts increased due to the increase in the wage bill by 10.1% compared to the previous year, as well as due to the modified tax regime for interest income paid to resident individuals from 7% to 12%. At the same time, as a result of the increase in the wage bill, revenue from compulsory insurance contributions and premiums also increased by 17% compared to the same period last year.

To stimulate the growth of small and medium-sized enterprises (SMEs), a new tax policy measure was introduced in 2023. This policy involved redefining the taxation of corporate income from entrepreneurial activities by implementing a 0% tax rate on SME income not distributed as dividends. While the budget initially projected a revenue loss of around MDL 1.2 billion due to this measure, 2023 did not see the anticipated decline. The full budgetary impact of this initiative is expected to extend into the next two fiscal years.

In the revenue structure of the NPB, VAT accounts for the bulk of total revenue collected in the period January-October 2023 (30% of total). Overall, VAT revenues in the period under review increased by 3.6%, including VAT on goods produced and services rendered on the territory of the Republic of Moldova increased by 19.4%, as a result of the cancellation and/or revision of a range of VAT-related tax concessions on the supply of ferrous and non-ferrous scrap and residues, industrial residues containing metals or their alloys and used directly in entrepreneurial activity in the Republic of Moldova. At the same time, the VAT collections from imported goods decreased by 2.5%. This was due to the weaker development of foreign trade in 2023 compared to 2022, the decrease in the prices of the petroleum products and liquefied gas, as well as to the application of tax facilities on import and/or supplies of goods and/or services for the implementation of the project *Security of natural gas supply*.

Excise revenues in the ten-month period 2023 increased by 23.8% compared to the same period of the previous year, including excise duties on imported means of transport by 41.4%, on tobacco products by 32%, on petroleum products by 14.8%, and on alcoholic products, wine and beer - by 12.4%. This increase was due to the increase in excise duties on tobacco products and ethyl alcohol, in order to standardize them and ensure the implementation of the provisions of the Moldova-EU Association Agreement, as well as due to the increase in the volume of imported goods (petrol, diesel, cars).

Grant disbursements account for 4.7% of total budget revenue received in January-October 2023. This is due to the support provided by the EU and other donors, via the World Bank trust fund. This substantial support has been provided in the context of the energy and regional crises, to support the Moldovan authorities in their efforts to withstand external and internal challenges.

Grants for budget support were disbursed in the volume of about EUR 160 million and constitute 80.8% of the total grants disbursed during the period under review.

Grants provided for the implementation of investment projects during the 10 months 2023 were disbursed in volume of about EUR 37.6 million and their share in total grants is only 19.2%.

Other revenues of the national public budget in January-October 2023 recorded a higher collection compared to the same period of 2022 by 11.6%.

In the period January-October 2023, total expenditures of the NPB were realized at 77.1% of the initially approved budget for 2023. Compared to the same period of 2022, the NPB expenditures increased by 19.8%.

Current expenditures for the 10-month period reached the level of 76.1% of the annual revised plan.

The main economic categories of expenditure were realized as follows:

- wages: 71.1% of the amended annual budget and 114.9% compared to the same period of the year 2022. The respective expenditure increased as a result of the Government's policies in increasing the salary level of employees in the budgetary sector during the current year;
- interest: 80.8% of the amended annual budget and with a more than 2 times increase, as a result of higher disbursements and higher interest rates on foreign loans, as well as higher T-bills issuances;
- social benefits: 80.4% of the amended annual budget and 117.2% compared to the same period of the year 2022. These expenditures registered an increase as a result of providing compensation for the households in order to mitigate the impact of the energy crisis.

Capital expenditures for the period January-October were realized at the level of 73.1% of the revised annual plan. Compared to the same period of the previous year capital expenditures increased by 44.9%.

Based on the revenues and expenditure generated in the period January-October 2023, the budget deficit amounted 3.0% of GDP or 50.7% compared to the planned deficit for 2023, and the primary deficit – 1.6% of GDP, or 26.5% compared to the planned primary deficit.

The low level of expenditure execution in the analysed period for 2023 compared to the plan, is the main reason of a lower than planned budget deficit for 2023. Another reason for the lower deficit is the low execution rate of projects financed from external sources, or about 66% compared to the planned level.

The NPB deficit in the period January - October 2023 was financed by domestic and external sources. Simultaneously, due to sharp decrease in domestic interest rates, domestic financing has been less expensive, which has resulted in changing financing strategy and replacing external sources by domestic ones. However, the share of external financing of the BPN deficit in 10 months was still 62.9%.

The execution of the NPB for the period January-October 2023 is presented in the table below:

Table 1. Budget Execution as of January - October 2023

	Amended 2023	Executed January-October 2023	Executed January-October 2022	Executed January-October 2023/ Amended 2023 (%)	Executed Jan-Oct 2023/ Realization Jan-Oct 2022 (%)
	million MDL			in %	
Total revenues NPB	**102.651**	**82.500**	**73.148**	**80.4**	**112.8**

	Amended 2023	Executed January-October 2023	Executed January-October 2022	Executed January-October 2023/ Amended 2023 (%)	Executed Jan-Oct 2023/ Realization Jan-Oct 2022 (%)
	million MDL			in %	
Tax revenues and contributions	**91.318**	**74.597**	**66.844**	**81.7**	**111.6**
Tax revenues	62.338	51.148	46.794	82.1	109.3
Personal income tax	7.047	5.805	4.796	82.4	121.0
Profit tax	8.357	7.584	6.934	90.7	109.4
VAT	31.744	24.656	23.808	77.7	103.6
Excises	9.326	7.996	6.456	85.7	123.8
Custom duties	2.900	2.295	2.207	79.2	104.0
Other taxes	2.965	2.813	2.593	94.9	77.3
Contributions	28.980	23.449	20.050	80.9	117.0
Other revenues	**4.409**	**4.061**	**3.639**	**92.1**	111.6
Grants	**6.924**	**3.842**	**2.665**	**55.5**	**144.2**
Total expenditures	**121.178**	**91.899**	**76.742**	**75.8**	**119.8**
Current expenditures	***110.346***	***83.985***	***71.280***	***76.1***	***117.8***
Wages	25.507	19.464	16.937	76.3	114.9
Goods and services	21.940	15.594	14.443	71.1	108.0
Subsidies and grants	5.051	4.643	3.057	60.5	151.9
Social benefits	44.511	35.803	30.549	80.4	117.2
Interests	5.552	4.484	2.118	**80.8**	**>200**
Capital expenditures	***10.832***	***7.914***	***5.462***	***73.1***	***144.9***
Deficit NPB	**-18.527**	**-9.399**	**-3.594**	**50.7**	**>200**
Deficit (% of GDP)	**-5.9**	**-3.0**	**-1.0**	**50.8**	**>200**
Primary deficit (% of GDP)	**-4.2**	**-1.6**	**-0.5**	**38.1**	**>200**
Deficit financing	**18.527**	**9.399**	**3.594**	**50.7**	**>200**
Domestic sources	6.190	5.596	-1.193	90.4	-
Foreign loans (net)	11.134	5.909	8.447	53.1	70.0
Other financing	1.203	-2.106	-3.660	-175.0	57.5

4.3 Budget plans for the ERP submission year

The Government's main objective for 2024 remains to promote a fiscal policy that would ensure fiscal sustainability and responsible management of public finances.

In the context of the current challenges, in order to address some economic constraints and boost the sustainable development of the Republic of Moldova, the Government will focus its efforts on promoting stability-oriented macroeconomic policies and reforms that foster economic recovery and growth.

The parameters of the national public budget for 2024 were estimated on the basis of the forecast of macroeconomic indicators and the objectives of fiscal policy.

Based on the baseline macroeconomic scenario, macroeconomic conditions are expected to gradually stabilise and pro-inflationary pressures are expected to diminish in 2024, based on the following assumptions: the downward trend in international oil and food prices, weak domestic demand and recovery in agricultural production.

The current regional context, as well as the national one, reflects the need to identify the optimal solutions to connect the tax system to the existing conditions.

Thus, in order to create a harmonized, fair, efficient and simple tax and customs system, which ensures the mobilization of the budgetary resources necessary to finance the objectives of sustainable development, the main objectives of the revenue policy measures in 2024 are aimed at:

- implementation of tools for attracting and maintaining qualified labour force;
- identifying the levers that would create premises for reducing the salary in the envelope (hidden salaries);
- revising the mechanisms for calculating and paying taxes and fees in order to simplify and clarify the legislative framework;
- the continuation of the harmonization of national legislation with the provisions of the *acquis* Communautaire;
- improving tax and customs administration by expanding the range of instruments available for intervention, in order to reduce the shadow economy and reduce the interaction between the taxpayer and the tax official.

Specific tax and customs policy measures for 2024 include:

- expanding the spectrum of tax facilities with a deductible character and without implications for social insurance contributions, granted by the employer to employees;
- limited deduction of sponsorship and philanthropic expenditures directed to trade unions and employers' organizations;
- granting the right to deduct expenditures incurred by natural persons when determining income tax;
- standardization of the income tax rates related to investment income (interest income, capital increase) of natural persons 6% (the budgetary impact MDL 10.1 million);
- the introduction of a new tax regime applied to economic agents carrying out activities in the field of commercialization of ferrous and non-ferrous metal waste, which provides for the taxation of sales revenues at the rate of 7%;
- the application of VAT at the standard rate to balancing electricity, with the exception of that delivered to economic agents that do not have relations with the budget system of the Republic of Moldova, for which the VAT exemption with the right to deduct is applied;
- establishing the calendar related to excisable goods for 3 years (2024-2026), with its annual indexation at the forecasted inflation rate of 7%;
- the exclusion of furs from the list of goods subject to excise duty and the reduction of the excise duty rate from 30% to 10% for perfumes and toilet water;
- regulation of excise taxation of refill bottles for electronic cigarettes containing nicotine;
- increasing the value of luxury cars subject to additional excise duty by MDL 100 thousand.

The revenues of the NPB for 2024 are estimated at about MDL 107 172.0 million, and as a share of GDP at the level of 31.3%. The increase in revenues will be supported primarily by the economic recovery, the impact of state policies to support economic sectors, as well as on better tax administration.

Taxes and duties represent the major part of the national public budget revenue, accounting for about 63.4% of total revenue. Of the total, 69.4% is accounted for by taxes and duties on goods and services, 25.7% - income taxes, 3.7% - taxes on foreign trade and foreign operations and 1.2% - property taxes. As a share of GDP, in 2024 taxes and duties will account for 19.9%.

Contributions and compulsory insurance premiums account for 29.8% of total national public budget revenue. As a share of GDP, this group of revenues accounts for about 9.3%.

For the period 2024, the disbursement of external grants is expected to decrease, thus in the structure of NPB revenues, grants are projected to hold about 2.3%. Of the total grants, those for budget support account for about 77.0% (equivalent to EUR 91.6 million), with the remaining 23.0% going to externally funded projects. The share of grants in GDP will be 0.7%.

Table 2. NPB revenues

	2021	2022	2023	2024	2025	2026
	Executed	**Executed**	**Amended**	**Approved**	**Forecast**	**Forecast**
	million MDL					
Total Revenues and Grants	**77.373**	**91.505**	**102.651**	**107.172**	**116.623**	**125.094**
Taxes and duties	**49.389**	**57.524**	**62.338**	**67.955**	**74.916**	**80.215**
Personal income tax	5.134	5.997	7.047	7.862	8.430	9.120
Corporate income tax	6.009	8.729	8.357	9.605	10.644	11.744
Value added tax	25.509	29.057	31.744	34.176	38.111	42.485
Excises	7.608	8.013	9.326	10.457	11.722	10.590
Taxes on foreign trade	2.253	2.732	2.900	2.526	2.729	2.948
Property taxes	750	755	775	813	808	808
Social insurance contributions	16.224	18.573	21.495	23.714	26.134	28.798
Health insurance contributions	5.615	6.350	7.485	8.232	9.023	9.765
Other taxes and duties	2.126	2.242	2.190	2.516	2.471	2.520
Other revenues	**3.698**	**4.519**	**4.409**	**4.796**	**4.911**	**4.890**
Grants	**2.447**	**4.539**	**6.924**	**2.475**	**1.640**	**1.426**
	% of GDP					
Total Revenues and Grants	**32.0%**	**33.4%**	**32.9%**	**31.3%**	**30.8%**	**29.9%**
Taxes and duties	**20.4%**	**21.0%**	**20.0%**	**19.9%**	**19.8%**	**19.2%**
Personal income tax	2.1%	2.2%	2.3%	2.3%	2.2%	2.2%
Corporate income tax	2.5%	3.2%	2.7%	2.8%	2.8%	2.8%
Value added tax	10.5%	10.6%	10.2%	10.0%	10.1%	10.2%
Excises	3.1%	2.9%	3.0%	3.1%	3.1%	2.5%
Taxes on foreign trade	0.9%	1.0%	0.9%	0.7%	0.7%	0.7%
Property taxes	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%
Social insurance contributions	6.7%	6.8%	6.9%	6.9%	6.9%	6.9%
Health insurance contributions	2.3%	2.3%	2.4%	2.4%	2.4%	2.3%
Other taxes and duties	0.9%	0.8%	0.7%	0.7%	0.7%	0.6%
Other revenues	**1.5%**	**1.6%**	**1.4%**	**1.4%**	**1.3%**	**1.2%**
Grants	**1.0%**	**1.7%**	**2.2%**	**0.7%**	**0.4%**	**0.3%**
GDP, (million MDL)	*242.100,0*	*274.200,0*	*312.400,0*	*342.100,0*	*378.300,0*	*418.400,0*

The main expenditure policy measures for 2024 are:

- in the social assistance and protection – the main changes refer to undertaking by state budget of all related expenditures in this area, which before 2024 was met by the local budgets (RESTART reform). The policy to partially compensate energy bills for households is still kept in the budget, however, the amount allocated is significantly lower and better targeted to vulnerable ones. The 2024 budget also provides essential allocations to increase the amount of the one-off allowance at childbirth;

- personnel expenditure policies are based on increasing reference values in the range of 10% and 15%, especially focused on teachers, researchers and police and justice;
- in order to ensure sustainable policies for the development of the economy, actions to support small and medium-sized enterprises will also be prioritized, including the financing of a number of programmes for the development and recovery of these enterprises.

Among the given programmes are:

- the Fund for the Development and Acceleration of the Sustainable Economy;
- the refurbishment and energy efficiency programme;
- the programme of attracting remittances to the economy PARE 1+2;
- the Credit Guarantee Fund for small and medium-sized enterprises;
- the programme to support businesses with high growth and internationalization potential;
- the programme START for YOUTH: a sustainable business in your home;
- job subsidy programme, etc.

The above-mentioned programmes aim for the sustainable development of SMEs, the expansion of the scope of their creation and functioning, the focus being on rural areas, the creation of new jobs and the employment opportunities for young people and women in entrepreneurial activity.

Another major priority for the development of the real sector of the economy is the continuous development of the transport and infrastructure system, with a gradual increase of the road network in good condition.

Energy efficiency policy for 2024 is aimed at reducing energy intensity and specific energy consumption in all sectors of the national economy. Improving the energy efficiency of housing is expected to reduce electricity bills for households. The new energy efficiency scheme is going to be introduced in 2024 through imposing a fee in energy resource tariffs, paid by energy companies. The collected revenues will be used for energy efficiency of residential buildings.

Regional and local development policy provides allocations for balanced and sustainable socio-economic development by reducing disparities between regional and local areas.

Environmental protection policy will be directed towards financing projects for the implementation of national programmes for the environmental protection, construction and participation in shares in the construction of environmental protection objects (funding of design works and their implementation in the field of water supply and sewerage), waste collection and sorting and supporting enterprises for processing or neutralizing them, improving the quality of the air basin, extension and rehabilitation of private forest areas.

The expenditure of the national public budget for 2024 is estimated at MDL 122 962.0 million and aim to ensure the implementation of actions and activities, which derive from the national and sectoral policy documents.

Compared to 2023, public expenditure will increase by 1.5%, and as a share of GDP it represents 35.94%, with a decrease of 3.21 percentage points.

Table 3. Expenditure NPB summary table

	2021 Executed	**2022 Executed**	**2023 Amended**	**2024 Approved**	**2025 Forecast**	**2026 Forecast**
	million MDL					
Total expenditures	**82.014**	**100.374**	**121.178**	**122.962**	**130.919**	**139.272**
Wages and salaries	18.776	21.400	25.507	27.549	28.538	30.267
Goods and services	16.683	18.602	21.940	22.339	23.378	24.222

	2021 Executed	2022 Executed	2023 Amended	2024 Approved	2025 Forecast	2026 Forecast
Interests	1.941	2.737	5.552	5.280	4.955	5.189
external debt	391	574	1.571	2.374	2.439	2.639
internal debt	1.550	2.163	3.980	2.906	2.516	2.550
Subsidies	3.708	4.557	5.198	5.052	5.306	6.330
of which capital expenditures	*488*	*998*	*1.020*	*707*	*707*	*707*
Grants	749	1.476	2.120	2.475	2.880	3.321
of which capital expenditures	*389*	*645*	*1.248*	*1.529*	*1.818*	*2.229*
Social benefits	28.187	37.743	44.511	44.496	47.723	50.882
Other expenditures	3.220	3.406	6.060	5.148	5.321	5.162
of which capital expenditures	*233*	*367*	*551*	*538*	*668*	*651*
Fixed assets	6.623	7.587	8.374	8.217	10.135	11.063
of which investments	*2.284*	*3.370*	*3.611*	*3.502*	*5.643*	*7.081*
Inventories	2.291	3.191	2.611	3.038	3.209	3.358
Other non-financial assets	-163	-325	-694	-632	-526	-522
of which capital expenditures	*-170*	*219*	*-361*	*-459*	*-195*	*-95*
Informative:						
Current expenditures	*74.451*	*90.557*	*110.346*	*112.430*	*117.787*	*124.717*
Capital expenditures	*7.563*	*9.817*	*10.832*	*10.532*	*13.133*	*14.555*
	% in GDP					
Total expenditures	**33.88**	**36.82**	**38.79**	**35.94**	**34.61**	**33.29**
Wages and salaries	7.76	7.85	8.16	8.05	7.54	7.23
Goods and services	6,89	6,82	7,02	6,53	6,18	5,79
Interests	0,80	1,00	1,78	1,54	1,31	1,24
external debt	0,16	0,21	0,50	0,69	0,64	0,63
internal debt	0,64	0,79	1,27	0,85	0,67	0,61
Subsidies	1,53	1,67	1,66	1,48	1,40	1,51
of which capital expenditures	*0,20*	*0,37*	*0,33*	*0,21*	*0,19*	*0,17*
Grants	0,31	0,54	0,68	0,72	0,76	0,79
of which capital expenditures	*0.16*	*0.24*	*0.40*	*0.45*	*0.48*	*0.53*
Social benefits	11.64	13.85	14.25	13.01	12.62	12.16
Other expenditures	1.33	1.25	1.94	1.50	1.41	1.23
of which capital expenditures	*0.10*	*0.13*	*0.18*	*0.16*	*0.18*	*0.16*
Fixed assets	2.74	2.78	2.68	2.40	2.68	2.64
of which investments	*0.94*	*1.24*	*1.16*	*1.02*	*1.49*	*1.69*
Inventories	0.95	1.17	0.84	0.89	0.85	0.80
Other non-financial assets	-0.07	-0.12	-0.22	-0.18	-0.14	-0.12
of which capital expenditures	*-0.07*	*0.08*	*-0.12*	*-0.13*	*-0.05*	*-0.02*
Informative:						
Current expenditures	*30.75*	*33.22*	*35.32*	*32.86*	*31.14*	*29.81*
Capital expenditures	*3.12*	*3.60*	*3.47*	*3.08*	*3.47*	*3.48*

The national public budget deficit target for 2024 is set at around 4.6% of GDP. The consequences of the crises in previous years, as well as the high security risk in the regional context, have led to the maintenance of the high deficit level for 2024, using the escape clause from the fiscal rule set out in art.15 para. (1) of the Law on public finance and fiscal responsibility No 181/2014. In this regard, the provisions of para. (3)(a) of the same article apply, which allow for escape from the budgetary-fiscal rule in case of exceptional situations that endanger national security.

Of the total volume of the NPB deficit, 98.7% belongs to the state budget and 1.3% belongs to local budgets.

The financing of the NPB deficit in 2024 will be carried out from domestic and external sources, especially by restoring the coverage of the financing needs from domestic sources, by capitalizing on loans to finance projects from external sources and to support the budget, as well as from the cash balances of the budgets.

For the year 2024, the NPB deficit will be financed from external sources in proportion to 65.7%, internal sources - 29.6%, and from other sources - 4,7%.

4.4 Medium-term budgetary outlook

Medium-term budgetary perspectives have been developed in compliance with the target indicators of the resource framework and present the main developments of the macroeconomic framework during the reference period in the context of the complicated international and domestic framework, with significant uncertainties and risks.

The medium-term expenditure forecast (budget limits) process was based on sustainable economic growth, improving the environment in which increased private sector activities are carried out, promoting sustainable employment and better well-being for all citizens. All this was guided by the following principles:

- allocation of expenditures that are more effective in achieving the Government's policy objectives;
- increasing quality and reliability in the budget process, as well as a better connection between policies and the budget;
- greater execution of expenditure in relation to their planned ones, with special emphasis on capital expenditure, by achieving specific priority objectives.

The general objective of public finance management is focused on strengthening the stability and sustainability of public finances. Through Decision No 71/2023, the Government approved the Strategy for the Development of Public Finance Management for the years 2023-2030, the purpose of which is to increase the efficiency, performance and transparency of public finances and contribute to the fulfilment of the fundamental criteria for EU accession.

The main priorities aimed at achieving the general objective are the following:

1) prudent management and efficient use of public resources under budgetary constraints;
2) supporting expenditure programmes in the fields of the national economy in order to boost the development of small and medium enterprises, support agricultural producers, etc;
3) supporting programmes in the field of social protection, simultaneously with the efficiency and reorganization of the social insurance system;
4) supporting the field of health protection by developing the technical-material base of the medical-sanitary institutions;
5) the implementation of structural reforms in accordance with the measures adopted in the Public Administration Reform Strategy of the Republic of Moldova in accordance with the available budgetary resources.

The main objective is to improve the management of public capital investment projects aimed to increase the potential growth of the national economy, stimulate competitiveness and attract new investments. In order to comply with the budgetary procedures established by the legal framework in the field of public finance in the management of projects financed from the state budget, by Government Decision No 684/2022, the Regulation on public capital investment projects was approved. The allocation from the state budget of budgetary resources for public capital investment projects is based on the following principles:

1) the principle of strategic planning - according to which project proposals will be subject to a process of establishing priorities in terms of the impact on policy priorities and objectives included in the medium-term strategic planning documents;

2) the principle of performance - according to which the allocation of resources for projects and their implementation reports will be based on the forecasted, intermediate and final results;
3) the principle of the cost-quality ratio - according to which the beneficiaries of the project must ensure that they will use the budget resources economically and efficiently, ensuring a high cost-quality ratio;
4) the principle of sustainability - according to which in the process of planning and approving public capital investment projects, the impact and costs of operation and maintenance after the completion of the project will be taken into account;
5) the principle of realism - according to which the availability of budgetary resources and the capacity to implement the project will be considered in the planning phase.

Medium-term budgetary perspectives in the tax policy area include provisions in the part related to excise duties. It refers to its standardization and ensuring the implementation of the provisions of the RM-EU Association Agreement. It also ensures predictability for the business environment and budget revenue forecasting. The Law No 212 of 20 July 2023 (fiscal policy for 2024), approved the calendar of excise duty rates for the years 2024-2026, with the annual indexation of the excise duty to the forecasted inflation rate of 7%, except for the excise duty rates on tobacco products and related products which will be indexed annually by 10%.

The estimated budgetary impact, related to:

- tobacco products: + 186,3 million MDL;
- petroleum products: + 217,4 million MDL.

At the same time, by the same Law it was established that from 1 January 2026, the excise tax on vehicles will be cancelled, and the related VAT will be applied. By introducing the value added tax on the import of cars classified under tariff heading 8703, the aim is to bring the national legal framework in line with EU norms.

In this regard, following the cancellation of excise duty and the application of VAT to cars, a budget impact is estimated as follows:

- import of cars by individuals: + 185,4 million MDL;
- import of cars by legal entities: + 552,5 million MDL.

At the same time, it should be noted that, considering the fact that legal entities, in their entrepreneurial activity, will have the right to deduct the VAT paid for the procurement of means of transport, the amount of the budgetary impact reflected above could be minus (MDL -552,5 million).

Budget perspectives for the years 2025-2026 were approved in Government Decision No 408/2023 regarding the approval of the Medium-Term Budgetary Framework (2024-2026), later revised in the framework of the draft budget for 2024.

According to the provisions of the Public Finances and Budgetary-Fiscal Responsibility Law No 181/2014, the Ministry of Finance, at the stage of drafting the annual budget law, carries out, as appropriate, the review of the expenditure limits approved in the Medium-Term Budgetary Framework and includes in the Information Note the results of the estimates for at least two years following the forecasted budget year. Thus, for the years 2025-2026, the main budgetary indicators of the BPN were re-estimated, based on the revised macroeconomic forecasts, as well as the tax measures provided for this period.

For the 2025-2026 horizon, the medium-term prospects are positive, with the provision of an optimal balance between budgetary consolidation and supporting economic recovery. Thus, during the years 2025-2026, when estimating the balance of the national public budget (deficit), the derogation clause from the budgetary-fiscal rule was used according to the provisions of Article 15 para. (1) of the Law on public finances and budgetary-fiscal responsibility No 181/2014, which admits exceeding the limit level of the deficit from the budgetary-fiscal rule under the conditions of the existence of real sources of financing capital investment projects financed from external sources. The escape clause will allow the Government to finance capital investment projects provided that these projects are financed from external sources.

The budget aggregates for the years 2025-2026 indicate that the budget is in continuous recovery, but still in a very constrained budgetary-fiscal framework.

Table 4. Budgetary aggregates

	MTBF (2024-2026)		NPB review (2024-2026)		MTBF (2024-2026)		NPB review (2024-2026)	
	2025	2026	2025	2026	2025	2026	2025	2026
	million MDL				% in GDP			
Total revenue	**113 234**	**122 394**	**116 623**	**125 094**	**30.1%**	**29.3%**	**30.8%**	**29.9%**
Taxes and duties	107 653	117 090	110 072	118 778	28.6%	28.1%	29.1%	28.4%
Other incomes	4 479	4 419	4 911	4 890	1.2%	1.1%	1.3%	1.2%
Grans	1 102	885	1 640	1 426	0.3%	0.2%	0.4%	0.3%
Total expenditures	**127 530**	**136 572**	**130 919**	**139 272**	**33.9%**	**32.7%**	**34.6%**	**33.3%**
Recurring expenditures of which:	121 451	130 883	125 276	132 191	32.3%	31.4%	32.3%	31.4%
- Personnel expenditure	26 859	29 544	28 538	30 267	7.1%	7.1%	7.1%	7.1%
- interests	4 342	4 673	4 955	5 189	1.2%	1.1%	1.2%	1.1%
Capital investments	6 080	5 689	5 643	7 081	1.6%	1.4%	1.6%	1.4%
Budget deficit	**-14 296**	**-14 178**	**-14 296**	**-14 178**	**-3.8%**	**-3.4%**	**-3.8%**	**-3.4%**
Sources of funding: external loans	-805	101	3491	1620	-0.2%	0.02%	0.9%	0.4%
domestic loans	3 479	4 464	4 640	4 610	0.9%	1.1%	1.2%	1.1%
Other sources of funding	4122	1813	-635	948	1.1%	0.4%	-0.2%	0.2%
Financing gap	7500	7800	6800	7000	2.0%	1.9%	1.8%	1.7%

The budget projections demonstrate that until 2026 the revenues of the national public budget will increase reaching 30.8% of GDP in 2025 and 29.9% of GDP in 2026. The increase in revenues will be supported first, by economic recovery, the impact of state policies to support economic sectors, as well as due to tax policy measures and better tax administration. However, medium-term budget revenues are based on grant estimates at a historically low level and revenue growth is based on increased tax and levy collections.

Taxes and duties (including social contributions and medical insurance premiums) represent a major part of the revenues of the national public budget. constituting in the years 2025-2026 about 94.0% of the total revenues mainly from the receipts from taxes and duties on goods and services.

Compared to the MTBF 2024-2026 the receipts from taxes and fees will increase due to the increase in income taxes and collections from social contributions and medical insurance premiums as a result of the increase of the wage bill by about 9.8% in 2025 and 8.4% in 2026, as well as a result of the increase in the corporate income tax revenues in the year 2023.

For the period 2025-2026, a reduction in the disbursement of external grants in total revenues is estimated from 1.4% to 1.1%. These estimates may suffer significant adjustments and will be updated as additional information and new grant agreements become available.

The expenditure of the NPB (excluding interest payments) for the years 2025 to 2026, recently estimated during the drafting budget for 2024 is expected respectively MDL 125 963.1 million and MDL 134 082.7 million or 33.3% and 32.0% in gross domestic product. Revised expenditure, compared to the level approved by the MTBF (2024-2026) increased by MDL 2 774.4 million or 1.8% of GDP in 2025 and by MDL 2 183 6 million or 1.7% of GDP in 2026. This increase in public expenditure is a result of higher revenue estimation and is aimed to support primarily the economic recovery though the proposing public policies to sustain economic sectors, as well as some tax policy measures and better tax administration.

A major part of the NPB expenditure (about 40%) will be directed towards the financing of social protection – the pillar that ensures security and stability within a state, being the key element of social reforms and the main direction of state social policy in order to ensure an adequate level of welfare and social security for all members of society, while maintaining the balance between reforms and financial support.

Health policy will also be a priority. Expenditure for the continuous strengthening of population health and the recovery of the economic and social situation in the country, increased access to quality medical services and medicines, promotion of healthy and active lifestyles, health education, development of programmes for prevention and control of communicable and non-communicable diseases are estimated at about 15% of the total expenditure of the NPB.

For the implementation of policies in the education sector which is another national priority, the basic factor in creating and transmitting new knowledge and general-human values in the development of human capital, in the formation of national consciousness and identity, in promoting the aspirations for European integration with a primary role in creating the premises for sustainable human development and building a knowledge-based society will be allocated about 14% of the total expenditure of the national public budget.

The share of economic services in the NPB is estimated at around 12% of the total expenditure, out of which:

- energy sector: implementing policies aimed at ensuring energy security, cross-border infrastructure projects; diversification of supply sources; increasing electrification; capitalizing on internal sources of energy generation; establishing support mechanisms and promoting the creation and use of renewable energy;

- agriculture sector: the granting of subsidies to agricultural producers through the National Fund for the Development of Agriculture and Rural Environment for the strategic areas of the sector; expansion of forest vegetation areas, climate change adaptation measures, the establishment and rehabilitation of protective curtains and grass coatings, grant loans for micro, small and medium-sized enterprises, young entrepreneurs and rural women; supporting agricultural producers in the field of horticulture by providing loans on more advantageous terms, rehabilitation and assessment of irrigation infrastructure and increase the resilience of beneficiaries in case of crisis or emergency;

- transport sector: proper repair and maintenance of the public road network; rehabilitation of national and regional roads, including the construction of new roads; rehabilitation/strengthening and construction of border road bridges across the Prut River;

implementation of investment projects for railway infrastructure; consolidation and construction of border road bridges across the Prut River in order to improve connectivity between the Republic of Moldova and Romania; construction of the cross-border road bridge over the Dniester River at the Moldovan-Ukrainian state border;

General economic services sector: supporting small and medium-sized enterprises (state programmes managed by the Organization for Entrepreneurship Development) by implementing the products of the Moldova's Entrepreneurship and Growth Fund, including the *Program 373* for subsidizing interest on investment loans of enterprises, granting credit guarantees to enterprises that do not have sufficient pledges, grant programs to support businesses launched by young people and women, artisanal producers, development of rural tourism and other fields; the job subsidy program to support the employment of people with disabilities and unemployed people in employment; the Project *Competitiveness of micro. small and medium-sized enterprises* – to strengthen the capacity of the Credit Guarantee Fund. to streamline business services through digitalization, to increase the export competitiveness of micro, small and medium-sized enterprises.

Revised estimates of economic expenditure compared to the latest the MTBF for 2025 are estimated at 3.7% of GDP compared to 3.6% and for 2026 and 3.9% of GDP, compared to 3.2%. The significant increase in expenditure for the year 2026 is targeted to the increase or road infrastructure development and for the development of medium and small enterprises.

Education expenditures for 2025 are estimated at 4.9% of GDP compared to 4.7% in recent MTBF, increased by 0.2 p.p. for 2026 and 4.5% +0.3 p.p. The main reason for this increase is due to higher remuneration cost in the education sector, increasing of scholarships for pupils and students, including the doubling of merit scholarships and scholarships for students with pedagogical profile from higher education institutions, extension of the number of classes in childhood education institutions, extracurricular education institutions and sports schools. For the social protection, the deviation per year is + 0.1 p.p. due to the implementation of the reform of the social assistance system *Restart*, the indexation of benefits, the increase in the number of beneficiaries.

In the medium term, it is proposed to return to a decreasing trend of the budget balance, considering that the basic scenario focuses on a relaunch of economic growth and the economic policies to support the business environment are assumed to generate an economic growth higher than the potential one. Thus, the NPB deficit is estimated to decrease from 3.8% in 2025 to 3.4% in 2026. The financing of the national public budget deficit for the 2025-2026 will be carried out from domestic and external sources by capitalizing on loans to finance projects from external sources and to support the budget actions in the form of participation in the capital, other internal claims of the budget, as well as from the monetary means from the balances in the accounts of the component budgets of the national public budget. At the same time, to cover the budget deficit for the years 2025 and 2026, the financing gaps are about 1.8% and 1.7% of GDP for the respective years.

Compared to the MTBF 2024-2026 budget deficit was not revised, while sources of financing the deficit were revised, namely mainly due to the increase in financing from external sources by 1.1% in GDP for the year 2025 and 0.3% in the GDP in the year 2026 due to the revision of the amounts regarding the repayment of external loans.

4.5. Debt levels and developments. analysis of below-the-line operations and stock-flow adjustments

The Law on public sector debt state guarantees and state on-lending (No 419/2006) sets out the sole power of the MoF to borrow, provide guarantees and on-lend on behalf of the central government. No other central public authority is allowed to borrow or provide guarantees or on-lending. The Law on local public finance (No 397/2003) allows local governments to borrow only within the debt limit (20% of revenue excluding special purpose transfers, 30% for Chisinau and Balti) which is subject to the MoF's *no-objection* and monitoring. Data on state debt guarantees and on-lending are published monthly in the MoF website. An annual report on public sector debt, including those of local governments and public corporations is also published in the MoF website.

As foreseen in the Law No 419/2006 the Ministry of Finance periodically elaborates medium-term Government Debt Management Programmes (Strategy). The latest Programme for the years 2024-2026 was approved by the Government Decision No 855/2023. The programme establishes the fundamental objective of the state debt management process, the specific objectives, as well as the actions to be taken by the authorities to ensure financing and improving the structure of the state debt portfolio so that their implementation will not create pressures on fiscal policy sustainability.

The Programme sets target ranges for the main risk and sustainability parameters (table 5).

Table 5. The risk indicators related to the state debt for the year 2024

Indicators	Target
The share of Governmental domestic debt into total Governmental debt	Min 30%
The share of government debt in a given foreign currency	Max 60%
Share of government debt maturing within one year	Max 35%
Average time maturity for total governmental debt	Min 6
The share of the governmental securities in circulation on the primary market maturing within one year	Max 90%
The share variable interest debt in the total debt	Max 50%
Debt service to state budget revenues (excluding grants)	Max 10%
Governmental debt to GDP	Max 43%

Government debt of the Republic of Moldova at the end of the third quarter of 2023 amounted to MDL 98 349 9 million. i.e. 31.5% of GDP, being significantly lower than the EU average. Total public debt amounted to MDL 102 164.8 million at the end of the third quarter, accounting for 32.7% of GDP. The overall public debt is assessed by the IMF/WB at moderate risk of distress. Most of the country's debt has been extended by international creditors on concessional terms. Central governmental debt is projected to remain below 40% of GDP. A negative primary balance will lead to an increase in the nominal value of the debt by 9.6% in 2024 and by 5.8% in 2026. Due to higher GDP growth rates, the central Government debt to GDP will constitute 36.7% in 2024 and decline to 34.1% in 2026.

External debt accounted for just over 60% of total central Government debt at the end October 2023. At the end of 2024, the central Government debt will mainly consist of long-term and fixed-rate government debt.

Financing of the deficit is expected to be ensured through domestic and foreign borrowing. Foreign loans are borrowed from multilateral and bilateral creditors to finance certain investment projects and reform-supporting programmes (budget support). The new external loans that will be contracted will have a maturity of at least 12 years, preference being given to concessional terms. Domestic financing is mainly short term. As of October 2023, the share of government securities issued on the primary market maturing within one year constitutes 92.1% of total amount of securities issued. The government is continuing the strategy of extending the maturities of domestic debt. To deepen the debt market for government securities and facilitate domestic financing, it was successfully issued a 10-year domestic bond in September 2023 (1% of total amount of securities issued).

Debt repayment needs are set to increase sharply starting from 2023, especially due to revolving loans offered by the EBRD to finance emergency gas supply and strategic reserve build up in order to facilitate diversification of gas supply. However, due to on-lending of this loan facility to the

SoE (Beneficiary) 58% of debt repayment out of total debt repayment of external governmental debt will be covered by the beneficiary company.

By the end of 2024. the interest rate expenditures of the central government debt portfolio amounted to 6.2% of the total budget expenditures. According to estimates. the average interest rate of the government securities issued on the primary market will decrease due to National Bank monetary policy and will be approximately 8.7% annually, for fixed-rate external debt – the average interest rate is around 2% and for variable external debt - the interest rate will fluctuate depending on the evolution of international rates as well as the 6-month EURIBOR and the rate for SDR.

Contingent liabilities

At the end November 2023, all outstanding State guarantees (MDL 1.7 billion) arose from the mortgage guarantee programme *First House*, which started in 2018. The credit underwriting for this programme is made by the Organization for Entrepreneurship Development (ODA), which is a subordinated institution of the Ministry of Economic Development and Digitalization under the supervision of the MoF.

A large part of outstanding State on-lending (MDL 9.3 billion in September 2023) arises also from loan programmes to the private and public sector.

As of 31 December 2024, the outstanding of state guarantees will not exceed MDL 2.5 billion. During 2024, the issuance of external state guarantees is not expected and Outstanding of external state guarantees will be 0.

Currently, the Public Property Agency is monitoring 45 Public-Private Partnerships (PPP) and concession contracts. including 15 contracts at the central level (4 completed contracts, 5 active contracts, 1 contract in the process of resolution, 4 terminated contracts, 1 unrealized contract) and 30 at the local level (13 active contracts, 3 contracts in the process of resolution, 10 terminated contracts, 3 suspended contracts and 1 unfulfilled contract).

The total value of the planned investments according to the PPP contracts is EUR 352.9 million at the central level and EUR 11.0 million respectively at the local level.

At the moment, only within the PPP contract *Design and construction of National Arena* are making direct payments from the state budget to honour payments related to loans made by the private partner. During the years 2018-2022. the State contributed to the formation of the social capital of *National Arena* with a contribution of MDL 410.6 million.

4.6 Quality of public finances

Tax expenditure review

Starting from the year 2022, a systematic exercise for the assessment of tax facilities was initiated, which requires the annual performance of some reports on the estimates of the missed budget revenues as a result of the preferential treatments.

The regular inventory of tax and customs facilities, the estimation of lost revenues due to them, the monitoring of their implementation and the ex-post evaluation of their profitability create opportunities for identifying future options for increasing revenues. Alternatively, such an inventory aims to promote future initiatives to broaden the tax base, with an adjustment in the direction of revising or reducing the tax rate. The cost-benefit analysis, as a pragmatic approach to the assessment of tax and customs facilities, as a component of the adjustment exercise of fiscal and customs policies is intended to improve the elaboration of public policies and as a result the entire budget process, being a component of the MTBF and the documentation budgeting. The evaluation report of tax and customs facilities is published annually on the web page of the Ministry of Finance.

The first Tax Facilities Assessment Report developed in 2022 was focused on the estimation of income tax costs for individuals and legal entities, as well as VAT costs.

The facilities report developed in 2023 was based on the estimated costs of excise duties, real estate tax, the tax for the extraction of mineral resources. the tax for the use of roads, as well as import duties.

The report published in 2023 includes information related to all estimates made during the last two years and can be found at https://mf.gov.md/ro/content/rapoarte-2.

Spending reviews

A medium-term challenge continues to be improving the efficiency of spending budgetary resources. The aim of the spending review process is to create an available expenditure space to respond to new priorities or emerging fiscal pressures. redirecting spending from low-priority, inefficient or ineffective. through an in-depth analysis of them.

In order to provide better targeted and sustainable saving measures, as well as higher quality expenditures, it is necessary to continue the spending review process and its institutionalization.

Thus, within the budget reform measures introduced for the first time by the Government, starting from 2018, the education sector was selected for the purpose of piloting the spending review (namely higher education and vocational/professional technical education). As a result, three measures were established in each subsector with the potential to identify some savings/non-priority expenditures, which. Subsequently, could be directed towards the implementation of new policies in the education sector.

Although the Final Report was not approved by the Public Spending Review Committee, some of the identified measures were implemented by the Ministry of Education and Research. Thus. following the higher education reform, 6 higher education institutions were merged/absorbed during the years 2020 and 2022.

In professional technical education, the spending review exercise had a less significant impact, because at this level of education were implemented only modern methods of studying (including the focus on modular training and dual education), which allowed the efficiency of the resources necessary for this level of education.

The second spending review exercise was initiated in 2020, with the selection of the agricultural sector. The analysis of expenditures included the sustainable development of the phyto technics and horticulture sector, the breeding and health of animals, the development of viticulture and winemaking, the subsidization of agricultural producers, the development of irrigation and drainage systems, forestry and food security.

As a result, a draft Report of the spending review in the agricultural sector was developed. However, the decision-making on the conclusions and recommendations from the draft Report was delayed and its finalization was suspended. Despite the aforementioned, it is considered important for the Ministry of Agriculture and Food Industry to examine the recommendations from the draft Report, with a possible revision in the context of the sector's development objectives and their subsequent implementation (including reduction and reorganization recommendations).

Starting from May 2022, the third spending review is ongoing, which focuses on the health sector (the expenditures covered by the mandatory health insurance fund), namely pre-hospital emergency medical care, primary care, specialized ambulatory care and community and home care.

The purpose of this exercise is to increase the efficiency of the use of money in the areas which are subject of analysis (the expenditures covered by the mandatory medical assistance insurance fund), with the determination of some inefficient expenditures, which will be redirected in accordance with the current priorities of the sector. Currently. the Working Group is in the process of finalizing the draft Report, which, along with the analysis of expenditures, will also present a series of recommendations, with the simultaneous estimation of their possible costs.

It should be mentioned that the spending review process is a process that involves the participation of representatives from different ministries/budgetary authorities, depending on the sector subject which is reviewed.

The public finance management strategy, recently approved, aims to institutionalize this process on a large scale, so that, within 5-7 years. Each will be subject of the spending review.

Consolidating the public finance management system and aligning it with international norms in this field is still an objective of the Government. In order to pursue its achievement, the Government recently approved the Development Strategy of Public Finance Management for the years 2023-2030. The purpose of which is to increase the efficiency, performance and transparency of public finances and to contribute to the fulfilment of the fundamental criteria for joining the EU. The main reforms areas include in the PFM strategy are as follows:

- improving the quality of macroeconomic and fiscal forecasts;
- creation of a harmonized, fair, efficient and simple fiscal and customs system, which ensures the mobilization of budget revenues;
- ensuring general budgetary-fiscal discipline and the allocation of public financial resources in close correlation with public policy priorities;
- strengthening the planning and capitalization of public investments;
- developing a high-performing public procurement system that provides *value for money* in the use of public funds;
- ensuring the use of public funds according to the principles of good governance, by implementing internal managerial control and internal audit in public entities;
- ensuring the transparency of the budget process at all its stages and the wider involvement of the public in the management of public finances.

The further development of public finance management is necessary not only to support measures aimed at fiscal consolidation and structural reforms, but also as a process that improves the quality of public administration and ensures an attractive environment for investors.

4.7 Fiscal governance and budgetary frameworks

Fiscal rules

The rules of the fiscal policy are provided in Law No 181/2014 on public finance and fiscal responsibility and were implemented starting with 2018. According to these rules, fiscal policy should be designed in line with other convergent policies and should ensure an annual deficit of the national public budget, excluding grants, which is not exceeding 2.5% of GDP. Derogation from the fiscal rule is allowed only if there is real financing from external sources for capital investment projects and there is the capacity to implement these projects.

There are several escape clauses, which allow for exceptions from general rule. admitted for at most three years in the case of:

- natural disasters and other exceptional situations that endanger national security;
- decline in economic activity and / or if the level of inflation exceeds the forecasted / planned level by 10 percentage points;
- need to cover the debit balance of the general reserve fund of the National Bank of Moldova. as well as in case of systemic financial crisis. for the capitalization of banks and for guaranteeing emergency loans granted to the banks by the National Bank of Moldova.

In the period of exceptions. the Government must report every six months to the Parliament on the trends of the macro-budgetary indicators, the undertaken and planned measures to comply with the rules of fiscal policy.

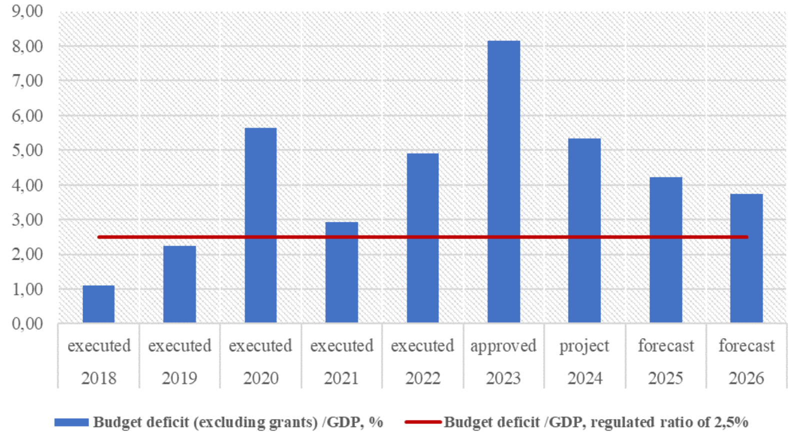
According to the budget balance rules, the level of the budget balance should be set by annual budget laws, which indicate the sources of budget deficit financing or how the budget surplus is directed. Any change in the budget balance is allowed only by amending the budget law.

Finally, according to the financial impact rules. draft legal acts which have a financial impact on the budget must be subject to financial expertise. according to the law governing the preparation of legal acts. At the same time, during the budget year. decisions leading to decrease of revenues and/or to increase of public expenditure cannot be approved if their financial impact is not foreseen in the budget. Also, it is not allowed to set specific amounts or shares of the budget or of the gross domestic product for certain areas. sectors or programs by other legal acts than the annual budgetary law.

The rules of fiscal policy are provided in Law No 181/2014 on public finances and fiscal responsibility and has been implemented since 2018. According to these rules, fiscal policy should be designed in line with other convergent policies and ensure an annual deficit from the national public budget. excluding grants, which does not exceed 2.5% of the gross domestic product. Exceeding the deficit limit is allowed only if there is real financing from external sources for capital investment projects and there is the capacity to implement these projects. Regarding the years of execution: in 2018 and 2019 the budget deficit was less than 2.5%, in 2020 and 2021, the economic decline was caused by the Covid-19 pandemic, and in 2022 when it was triggered the armed conflict in Ukraine. the budget deficit (excluding grants) increased to 5.6% of GDP, 2.9% of GDP and 4.9% of GDP respectively.

The evolution of the budget deficit in the years 2018-2026 is presented in the chart 4.1.

Chart 4.1 Fiscal deficit (without grants)
(% of GDP)

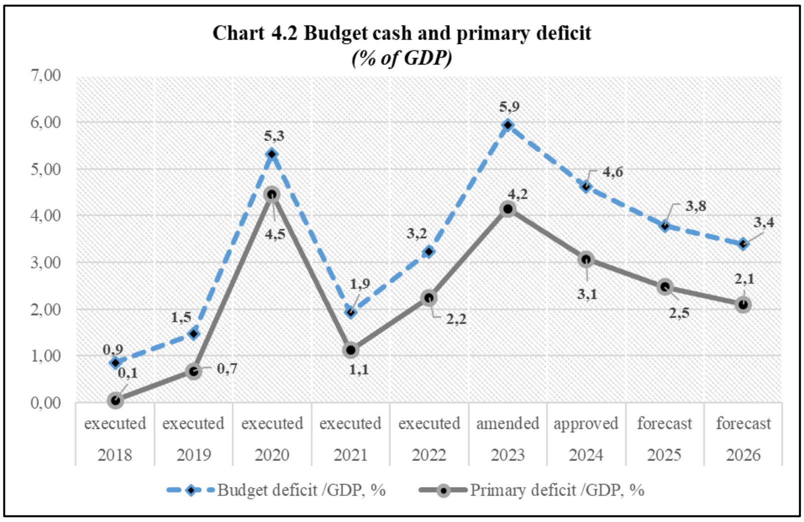


For the years 2023-2026, the level of the planned deficit is estimated with an escape from the general rule. The consequences of the crises of the previous years. as well as the high security risk in the regional context, led to the need for keeping the high level of the deficit for the year 2023 and 2024. using the escape clause that allows deviation from the fiscal rule in case of exceptional situations that put national security at risk. For the years 2025-2026. the return to a decreasing trend of the budget balance is estimated, but still with a deviation from the general rule, with the use of the escape clause that admits exceeding the limit level of the deficit from the budgetary-fiscal rule in the conditions of the existence of real sources of financing of capital investment projects financed from external sources.

It is worth to mentioning that the revision of the current fiscal rule is on the agenda of the MoF in the medium-term perspective and is provided in Component 2 of the Public Finance Management Development Strategy for the years 2023-2030.

For the years 2024-2026. the level of the primary deficit will register a descending trend from 3.1% of GDP in 2024 to 2.5% and 2.1% of GDP in 2025-2026.

The evolution of the primary deficit in the years 2018-2026 is presented in the chart 4.2.



According to the execution. in the period of 2018-2021 the share of interest payments in GDP recorded practically a constant trend of around 0.8%. In the following period. there is an increase in the share of interest in GDP from 1.0% to 1.8% in GDP in the years 2022-2023. In the medium term, it is estimated that interest will decrease in the level of the budget deficit, from 1.6% in GDP in 2024 to 1.3% in GDP in the years 2025-2026. Based on the evolution of the primary deficit it is counted that it grew to the same extent as the domestic budget deficit. which indicates that the level of the deficit has a directly proportional relationship with current expenditures.

For local public authorities according to the provisions of Law No 397/2003 on local public finances the fiscal rule allows the Executive Authorities:

1) To contract loans to cover temporary cash gaps maturing in the same budget year from financial institutions and other creditors in the country, which must not exceed 5 % of total approved revenues.
2) To contract long-term domestic loans for capital investments only from financial institutions and other creditors in the country and long-term external loans from international financial institutions.

These provisions apply if the total amount of annual payments (repayment of principal, payment of interest and other related payments) related to the service of local budget debt does not exceed 20% of the total annual revenue of those budgets except for special purpose transfers received from the state budget. For Chisinau and Balti municipalities. this indicator may not exceed 30%.

At the same time, the highest level of indebtedness of local public authorities was recorded in the years 2022-2023, which constitutes about 0.5% of GDP. In the medium term the debt level registers a downward trend to 0.4% of GDP in 2024 and to 0.2% of GDP in 2026.

Independent fiscal institution

There is no Independent Fiscal Institutions (IFI) currently in the RM. The Ministry of Finance conducted the analysis on fiscal governance in the Republic of Moldova in relation to EU practices during 2015-2016, especially in comparison with some EU Member States, selected with other countries in transition. and the opportunity of creating of IFIs in Moldova. As a result, human and financial resource constraints were mentioned in the process of setting up the IFI. The Report on a possible Fiscal Council for Moldova and options for its institutional arrangement may be found on the following link https://mf.gov.md/en/buget/transparen%C8%9Ba-bugetar%C4%83/guvernan%C8%9Ba-bugetar-fiscal%c4%83.

According to the Report. there are two basic aspects to be considered in examining the relevance and possible mandate of a Fiscal council in the Republic of Moldova:

On relevance: if well designed. fiscal councils contribute to increased transparency and can stimulate a productive public debate on fiscal budget policies. This would be of particular importance in the Republic of Moldova, considering the general limited understanding of the aspects related to the budgetary-fiscal field and the lack of informative and evidence-based debates regarding the elaboration and implementation of the budgetary-fiscal policy. At the same time, this limited understanding must be accepted internally before a definitive decision is made regarding the relevance and effectiveness of establishing a fiscal-budget council in the Republic of Moldova at this time.

Regarding the possible mandate: if a fiscal council should be established in the Republic of Moldova, in the current circumstances this entity could cover a narrow field and focus predominantly on the independent assessment of the objectives of the budget-fiscal policy and budget forecasts in the medium term, especially in the first years of operation. There is significant variation in international approaches to the mandate and functions of Fiscal Councils.

Although in all cases the mandate of fiscal councils includes assessment of fiscal sustainability. there is no standard approach to the detailed role and organizational arrangements, resource requirements and institutional attachment of a fiscal council. All empirical evidence suggests that the design of fiscal councils should take into account the specific characteristics of each country. such as available human and financial capacities. political traditions, and the nature/history of macro-budgetary imbalances. They must serve as a basic principle in exploring the relevance of such an institution in the Republic of Moldova. In addition, it is extremely important not to lose sight of the fact that it is necessary to develop and strengthen the existing capacities of the institutions responsible for the elaboration of policies and forecasts in the fiscal area.

The successful establishment of an IFI could provide for the useful enforcement of PFM reforms. enhance fiscal sustainability and promote fiscal culture among the broad public. For that purpose, the Public Finance Management Development Strategy for 2023-2030. approved by the Government of Moldova in 2023, foresees as a long-term measure the establishment of an independent institution for the evaluation of the budget-fiscal policy. It is also included in the National Action Plan for Accession of the Republic of Moldova to the European Union for the years 2024-2027, and the detailed analyses and concrete proposals for IFI establishment should be elaborated during 2026. The legal basis for these measures would be created during national fiscal framework alignment to EU *acquis* especially to Directive 2011/85, by introducing it in Law 181/2014.

The Medium-Term Budgetary Framework (MTBF)

The Law No 181/2014 on public finance and fiscal responsibility stipulates that the Government. in accordance with the budgetary calendar. annually approves the Medium-Term Budgetary Framework (MTBF) for the next 3 years and presents it to the Parliament for information.

The MTBF is an instrument that ensures the coherence of the allocation of public financial resources with policy priorities on a medium-term basis. The medium-term sector policy priorities derive from the National Development Strategy, the Government Activity Program. and the Association Agreement between the Republic of Moldova and the European Union. They are also based on sectoral strategic documents, which provide the public entities with the needed flexibility necessary to determine the most appropriate structure and possible levels of funding to achieve these objectives.

The MTBF development process ensures that the overall framework of resources available to finance public expenditure is top-down estimated, in combination with a bottom-up estimation of the undertaken/planned policies' costs.

The MTBF contains the objectives of the fiscal policy, the forecast for the national public budget, the resources and expenditures and its components on the medium term and the aggregate expenditure limits from the state budget for line ministries / autonomous entities. The MTBF forecasts are updated annually, maintaining a rolling three-year outlook in budget planning. The first year of the MTBF is the next budget year, for which the draft budget is being prepared. At the same time, the medium-term budget reflects the results of the last two budget years and the estimated results for the current budget year https://mf.gov.md/ro/buget/cadrul-bugetar-pe-termen-mediu.

Fiscal risk statement

Starting with 2018 a Fiscal risk statement (FRS) as part of the budget documentation is drawn up. The statement includes a detailed analysis and comments on all explicit and implicit fiscal risks.

The FRS associated with state-owned enterprises and JSC with full or majority state capital is included in the Ministry of Finance's FRS.

Regarding the reforms to improve the monitoring of economic entities with state capital and ensuring the integrity and efficient management of public patrimony. it is to continue the sorting program of the process of reorganization through merger (absorption) of some state enterprises/reorganization of state enterprises into other legal forms of organization provided for by legislation/liquidation of some state enterprises and commercial companies with the state's share in the share capital which does not carry out activity for several years. according to Government Decision No 911/2022 for the approval of the Strategy regarding the administration of state property in the field of state enterprises and commercial companies with full or majority state capital for the years 2023-2030.

The further implementation of the SOE ownership and management strategy could play an important role in this regard. Among the most important actions that are included in the Strategy we note: Strengthening the state's commitment and capacities to administer state property in order to ensure the socioeconomic security of the country. privatization and property policy, transparency and responsibility, development of a categorization/triage mechanism for state enterprises and commercial companies with state capital.

In support of this idea, the mechanism for sorting state enterprises and commercial companies with state capital was approved by Government Decision No 819/2023 and provides for classification of SOE in the following categories: enterprises ineligible for privatization, companies recommended for reorganization in another legal form of organization, enterprises subject to privatization after restructuring/modernization, enterprises recommended for immediate privatization, companies recommended for liquidation.

Respectively, for all these categories, a set of criteria is established, which will allow the state company to be placed in one of these categories, taking into account the role and specific activity of the enterprises, their performance and financial sustainability.

Regarding to the actions mentioned in both Strategies, it is necessary to take all measures to improve the governance of SOEs and reduce related fiscal risks to public finances.

The last FRS can be found at https://mf.gov.md/ro/content/bugetul-de-stat-2023.

5. INSTITUTIONAL ISSUES AND STAKEHOLDERS INVOLVEMENT

The Republic of Moldova submit for the first time the Economic Reform Programme document. As agreed with the European Commission, the document comprises only macro-fiscal framework with no need to describe this year the structural reforms chapter.

The Ministry of Finance was nominated by the Prime Minister Dorin Recean as the National ERP Coordinator of the Republic of Moldova and on 27 November 2023, the European Delegation to the Republic of Moldova was formally informed that the State Secretary Ion Gumene is the responsible person for drafting the 2024-2026 ERP of the Republic of Moldova.

The ERP coordination team in the Ministry of Finance has closely worked together with government institutions and other public authorities to draft and prepare the 2024-2026 Economic Reform Programme, namely the Ministry of Economic Development and Digitalization, Ministry of Labour and Social Protection, National Bank of Moldova and National Bureau of Statistics. At the same time, the document was consulted with the foreign experts from the Technical Assistance EU Project Preparation Facility.

As well the draft ERP was sent for comments and suggestions to the Independent Think-tank Expert-Grup, one of the leading national think-tank in economic research.

According to the national procedures, the 2024-2026 ERP was discussed at the Council for the Coordination of Sustainable Development on 11 January 2024, and approved by the Interministerial Committee for Strategic Planning, headed by the Prime Minister, on 15 January 2024.

The 2024-2026 Economic Reform Programme of the Republic of Moldova is published on the Ministry of Finance web page: https://www.mf.gov.md/ro/content/documente-strategice .

ANNEX TABLES

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level (bn	Rate of change				
1. Real GDP at market prices	B1*g	11,555	-5,0	2,0	3,5	4,0	4,2
2. Current GDP at market prices	B1*g	13,779	13,3	13,9	9,5	10,6	10,7
Components of real GDP							
3. Private consumption expenditure	P3	10	-6,1	0,1	3,8	3,5	3,5
expenditure	P3	2	3,2	8,0	1,0	1,0	2,5
5. Gross fixed capital formation	P51	3	-6,8	1,0	3,0	4,9	5,5
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	1	5,2	3,3	3,2	3,1	3,0
7. Exports of goods and services	P6	5	26,7	-2,4	10,3	9,0	6,8
8. Imports of goods and services	P7	8	15,9	-2,0	6,8	5,7	4,7
Contribution to real GDP growth							
9. Final domestic demand		14,4	-6,2	1,7	4,0	4,2	4,6
10. Change in inventories and net acquisition of valuables	P52+P53	0,6	2,2	0,0	0,0	0,0	0,0
11. External balance of goods/services	B11	-3	-1,0	0,4	-0,5	-0,2	-0,4

Table 1b: Price developments

Percentage changes. annual averages	ESA Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. GDP deflator		19.3	11.6	5.8004	6.3	6.3
2. Private consumption deflator		22.5	9.8	5.2	8.0	6.3
3. HICP		:	:	:	:	:
4. National CPI change		22.5	-11.7	-7.6	0.0	0.0
5. Public consumption deflator		14.9	13.5	5.0	4.6	4.7
6. Investment deflator		13.7	13.6	8.8	5.0	5.6
7. Export price deflator (goods & services)		20.3	8.0	0.4	2.6	3.1
8. Import price deflator (goods & services)		17.5	8.6	2.6	5.1	3.7

Table 1c: Labour markets developments

	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level	Level/Rate of change				
1. Population (thousands)			2.538,9	:	:	:	:
2. Population (growth rate in %)			-2,2	-100,0	:	:	:
3. Working-age population (persons)[1]			1.737	:	:	:	:
4. Participation rate			49,9	:	:	:	:
5. Employment, persons [2]			840	:	:	:	:
6. Employment, hours worked[3]			32.560.445,0	:	:	:	:
7. Employment (growth rate in %)			2,1	:	:	:	:
8. Public sector employment (persons)			240,1	:	:	:	:
9. Public sector employment (growth in %)			2,7	:	:	:	:
10. Unemployment rate [4]			3,2	:	:	:	:
11. Labour productivity, persons[5]		273,8	-6,9	:	:	:	:
12. Labour productivity, hours worked[6]			-7,8	#REF!	:	:	:
13. Compensation of employees	D1	0,0	:	:	:	:	:

Table 1d: Sectoral balances

Percentages of GDP	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	:	:	:	:	:
of which:						
- Balance of goods and services		:	:	:	:	:
- Balance of primary incomes and transfers		:	:	:	:	:
- Capital account		:	:	:	:	:
2. Net lending/borrowing of the private sector	B.9/ EDP	:	:	:	:	:
3. Net lending/borrowing of general government		-3,2	-5,9	-4,6	-3,8	-3,4
4. Statistical discrepancy		:	:	:	:	:

Table 1f: External sector developments

Billion Euro unless otherwise indicated		Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Current account balance (% of GDP)	% of GDP	-17,4	:	:	:	:
2. Export of goods	bn EUR	3,5	:	:	:	:
3. Import of goods	bn EUR	8,4	:	:	:	:
4. Trade balance	bn EUR	-4,9	:	:	:	:
5. Export of services	bn EUR	2,2	:	:	:	:
6. Import of services	bn EUR	1,3	:	:	:	:
7. Service balance	bn EUR	0,9	:	:	:	:
8. Net interest payments from abroad	bn EUR	-0,1	:	:	:	:
9. Other net factor income from abroad	bn EUR	0,1	:	:	:	:
10. Current transfers	bn EUR	1,7	:	:	:	:
11. Of which from EU	bn EUR	0,5	:	:	:	:
12. Current account balance	bn EUR	-2,4	:	:	:	:
13. Capital and financial account	bn EUR	-2,3	:	:	:	:
14. Foreign direct investment	bn EUR	0,6	:	:	:	:
15. Foreign reserves	bn EUR	4,2	:	:	:	:
16. Foreign debt	bn EUR	9,0	:	:	:	:
17. Of which : public	bn EUR	3,1	:	:	:	:
18. O/w: foreign currency denominated	bn EUR	8,9	:	:	:	:
19.O/w: repayments due	bn EUR	0,5	:	:	:	:
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	19,9	:	:	:	:
p.m. Exchange rate vis-à-vis EUR (annual	*%, year-on-*	*-4,8*	*:*	*:*	*:*	*:*
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	20,4	:	:	:	:
p.m. Exchange rate vis-à-vis EUR (end-year)	*%, year-on-*	*1,5*	*:*	*:*	*:*	*:*
22. Net foreign saving	% of GDP	:	:	:	:	:
23. Domestic private saving	% of GDP	:	:	:	:	:
24. Domestic private investment	% of GDP	:	:	:	:	:
25. Domestic public saving	% of GDP	:	:	:	:	:
26. Domestic public investment	% of GDP	:	:	:	:	:

Table 1g: Sustainability indicators

	Dimension	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Current Account Balance	% of	-9,3	-7,9	-12,1	-17,4	:
2. Net International Investment	% of	-40,2	-40,5	-39,7	-42,1	:
3. Export market shares	%, yoy	:	:	:	:	:
4. Real Effective Exchange Rate [1]	%, yoy	3,7	-0,3	10,8	11,0	:
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow	% of	:	:	:	:	:
7. Private sector debt	% of	:	:	:	:	:
8. General Government Debt	% of	25,2	34,2	32,6	35,0	37,2

[1] The NBM calculates NEER as the geometric weighted average of a basket of bilateral exchange rates, and the REER is the NEER adjusted with the corresponding relative consumer prices as the main deflator. An alternative index is calculated using the relative producer prices as deflator. The weights are calculated as the shares of 17 main trade partners in Moldova's foreign trade (imports and exports of goods and services). The weights are time-varying and are applied as three-year averages from the base year 2000, using the chain-linking method.

Table 1e: GDP, investment and gross value added

	ESA	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
GDP and investment						
currency)	B1g	274,2	312,4	342,0	378,1	418,7
Investment ratio (% of GDP)		22,5	22,7	23,2	23,1	23,3
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-21,2	23,0	2,6	3,0	2,0
2. Industry (excluding construction)		-12,2	-3,5	3,5	4,7	3,5
3. Construction		-7,6	-2,2	4,0	4,9	5,0
4. Services		0,8	1,6	3,7	4,2	4,9

Table 2a: General government budgetary prospects

	ESA code	Year 2022 Level (bn NCU)	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
			% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-8,8690	-3,2	-5,9	-4,6	-3,8	-3,4
2. Central government	S1311	:	:	:	:	:	:
3. State government	S1312	-9,3255	-3,4	-5,9	-4,6	-3,7	-3,3
4. Local government	S1313	0,7270	0,3	-0,1	-0,1	-0,1	0,0
5. Social security funds	S1314	-0,2700	-0,1	:	:	:	:
General government (S13)							
6. Total revenue	TR	91,5050	33,4	32,9	31,3	30,8	29,9
7. Total expenditure[1]	TE	100,3740	36,6	38,8	36,0	34,6	33,3
8. Net borrowing/lending	EDP.B9	-8,8690	-3,2	-5,9	-4,6	-3,8	-3,4
9. Interest expenditure	EDP.D41 incl.	2,7360	1,0	1,8	1,5	1,3	1,2
10. Primary balance[2]		-6,1330	-2,2	-4,2	-3,1	-2,5	-2,1
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		57,4690	21,0	20,0	19,9	19,8	19,1
12a. Taxes on production and imports	D2	42,0420	15,3	14,8	14,5	14,6	14,0
12b. Current taxes on income and wealth	D5	14,8000	5,4	4,9	5,1	5,1	5,0
12c. Capital taxes	D91	0,6270	0,2	0,3	0,2	0,2	0,1
13. Social contributions	D61	24,9000	9,1	9,3	9,3	9,3	9,2
14. Property income	D4	0,7000	0,3	0,2	0,2	0,2	0,2
15. Other (15 = 16-(12+13+14)) [4]		8,4360	3,1	3,3	1,9	1,5	1,4
16 = 6. Total revenue	TR	91,5050	33,4	32,9	31,3	30,8	29,9
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		82,3690	30,0	29,3	29,2	29,1	28,3
Selected components of expenditures							
17. Collective consumption	P32	:	:	:	:	:	:
18. Total social transfers	D62 + D63	37,7430	13,8	14,2	13,0	12,6	12,2
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	37,7430	13,8	14,2	13,0	12,6	12,2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	2,7360	1,0	1,8	1,5	1,3	1,2
20. Subsidies	D3	6,0330	2,2	2,3	2,2	2,2	2,0
21. Gross fixed capital formation	P51	3,3700	1,2	1,2	1,0	1,5	1,7
22. Other (22 = 23-(17+18+19+20+21)) [6]		50,4920	18,4	19,3	18,2	17,0	16,1
23. Total expenditures	TE [1]	100,3740	36,6	38,8	36,0	34,6	33,3
p.m. compensation of employees	D1	21,4000	7,8	8,2	8,1	7,6	7,2

Table 2b: General government budgetary prospects

	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-8,87	-18,53	-15,79	-14,30	-14,18
2. Central government	S1311	:	:	:	:	:
3. State government	S1312	-9,33	-18,33	-15,60	-14,10	-14,00
4. Local government	S1313	0,73	-0,20	-0,20	-0,20	-0,20
5. Social security funds	S1314	-0,27	:	:	:	:
General government (S13)						
6. Total revenue	TR	91,51	102,65	107,17	116,62	125,09
7. Total expenditure[1]	TE	100,37	121,18	122,96	130,92	139,27
8. Net borrowing/lending	EDP.B9	-8,87	-18,53	-15,79	-14,30	-14,18
9. Interest expenditure	EDP.D41 incl.	2,74	5,55	5,28	4,96	5,19
10. Primary balance[2]		-6,13	-12,98	-10,51	-9,34	-8,99
11. One-off and other temporary measures [3]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		57,47	62,50	68,01	74,95	80,06
12a. Taxes on production and imports	D2	42,04	46,20	49,68	55,03	58,54
12b. Current taxes on income and wealth	D5	14,80	15,40	17,52	19,12	20,91
12c. Capital taxes	D91	0,63	0,90	0,82	0,80	0,61
13. Social contributions	D61	24,90	29,00	31,95	35,16	38,56
14. Property income	D4	0,70	0,70	0,76	0,76	0,76
15. Other (15 = 16-(12+13+14)) [4]		8,44	10,45	6,45	5,75	5,71
16 = 6. Total revenue	TR	91,51	102,65	107,17	116,62	125,09
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		82,37	91,50	99,96	110,11	118,63
Selected components of expenditures						
17. Collective consumption	P32	:	:	:	:	:
18. Total social transfers	D62 + D63	37,74	44,51	44,50	47,72	50,88
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	37,74	44,51	44,50	47,72	50,88
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	2,74	5,55	5,28	4,96	5,19
20. Subsidies	D3	6,03	7,32	7,53	8,19	8,56
21. Gross fixed capital formation	P51	3,37	3,61	3,50	5,64	7,08
22. Other (22 = 23-(17+18+19+20+21)) [6]		50,49	60,19	62,16	64,41	67,56
23. Total expenditures	TE [1]	100,37	121,18	122,96	130,92	139,27
p.m. compensation of employees	D1	21,40	25,51	27,55	28,58	30,27

Table 3: General government expenditure by function

% of GDP	COFOG Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. General public services	1	3,0	3,9	4,0	3,7	3,7
2. Defence	2	0,3	0,5	0,5	0,4	0,4
3. Public order and safety	3	2,3	2,2	1,9	1,8	1,6
4. Economic affairs	4	4,0	3,8	3,4	3,7	3,9
5. Environmental protection	5	0,1	0,1	0,2	0,2	0,2
6. Housing and community amenities	6	1,1	1,4	0,8	0,8	0,8
7. Health	7	5,0	5,5	5,2	4,9	4,7
8. Recreation, culture and religion	8	0,8	0,9	0,9	0,8	0,8
9. Education	9	5,8	5,9	5,4	4,9	4,5
10. Social protection	10	14,2	14,6	13,7	13,2	12,7
11. Total expenditure (item 7 = 23 in Table 2)	TE	36,6	38,8	36,0	34,6	33,3

Table 4: General government debt developments

% of GDP	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Gross debt [1]		35,0	37,2	37,0	35,9	34,2
2. Change in gross debt ratio		2,5	2,2	-0,2	-1,1	-1,7
Contributions to change in gross debt						
3. Primary balance [2]		2,2	4,2	3,1	2,5	2,1
4. Interest expenditure [3]	EDP D.41	1,0	1,8	1,5	1,3	1,2
5. Real growth effect		1,4	-0,6	-1,2	-1,3	-1,4
6. Inflation effect		-5,5	-3,6	-2,0	-2,1	-2,0
7. Stock-flow adjustment		3,3	0,4	-1,7	-1,5	-1,7
of which:						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		3,5	5,8	4,5	3,9	3,8
Other relevant variables						
8. Liquid financial assets [8]		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

Table 5: Cyclical developments

% of GDP	ESA	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Real GDP growth (%, yoy)	B1g	-5,0	2,0	3,5	4,0	4,2
2. Net lending of general government	EDP.B.9	-3,2	-5,9	-4,6	-3,8	-3,4
3. Interest expenditure	1	1,0	1,8	1,5	1,3	1,2
[1]		:	:	:	:	:
5. Potential GDP growth (%, yoy)		2,0	1,9	2,0	2,0	2,1
Contributions:						
- labour		0,2	0,2	0,2	0,2	0,2
- capital		1,3	1,2	1,3	1,3	1,3
- total factor productivity		0,5	0,5	0,5	0,5	0,6
6. Output gap		-3,8	-3,3	-1,8	0,0	2,3
7. Cyclical budgetary component		:	:	:	:	:
8. Cyclically-adjusted balance (2-7)		:	:	:	:	:
(8+3)		:	:	:	:	:
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. GDP growth (%, yoy)					
Previous programme	:	:	:	:	:
Latest update	-5,0	2,0	3,5	4,0	4,2
Difference (percentage points)	:	:	:	:	:
2. General government net lending (% of GDP)					
Previous programme	:	:	:	:	:
Latest update	-3,2	-5,9	-4,6	-3,8	-3,4
Difference	:	:	:	:	:
3. General government gross debt (% of GDP)					
Previous programme	:	:	:	:	:
Latest update	35,0	37,2	37,0	35,9	34,2
Difference	:	:	:	:	: