Questionnaire

Part II

Information provided by the Government of the Republic of Moldova to the Questionnaire of the European Commission

CHAPTER 17:

ECONOMIC AND MONETARY POLICY

May 2022

The *acquis* in the area of monetary policy contains specific rules requiring the independence of central banks in Member States, prohibiting direct financing of the public sector by the central banks and prohibiting privileged access of the public sector to financial institutions. Member States are also expected to co-ordinate their economic policies, including structural reform plans, and are subject to the Stability and Growth Pact and the Macroeconomic Imbalance Procedure. New Member States are also committed to complying with the criteria laid down in the Treaty on the Functioning of the European Union (the TFEU) in order to be able to adopt the Euro in due course after accession. Until then, they will participate in the Economic and Monetary Union as a Member State with a derogation from the use of the Euro and shall treat their exchange rates as a matter of common concern.

The *acquis* in the area of economic and monetary policy is mainly governed by Title VIII (Articles 119 to 144) of the TFEU and by relevant implementing legislation. Provisions of Chapter 4 of Title VIII of the TFEU (i.e. Articles 136-138 specific to Member States whose currency is the euro) and those defined in Article 139 of the TFEU do not apply to Member States with a derogation. The *acquis* consists mainly of TFEU provisions and protocols annexed to the TFEU (the so-called ‘primary legislation’) and the provisions of legal acts enacted by the EU institutions by virtue of them (the so-called ‘secondary legislation’ e.g. regulations, decisions). In particular, as indicated in Article 131 of the TFEU, each Member State shall ensure that its national legislation including the statutes of its central bank is compatible with the Treaties and the Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB). In addition, the *acquis* on economic policy includes Directive 2011/85, which lays down the requirements for the budgetary frameworks of Member States and requires transposition into national legal and administrative order.

I. ECONOMIC POLICY

A. Capacity for economic policy coordination

1. Please provide comprehensive information about the coordination and cooperation between stakeholders (e.g. line ministries, the Ministry of Finance and/or the Central Bank) to define the economic policy. Economic policy includes fiscal and monetary policy, but also the formulation and implementation of structural reforms to strengthen competitiveness and growth.

Responsibilities for defining economic policy in Moldova are divided among several institutions following the good governance best practices. The Ministry of Finance is responsible for fiscal policy. The Ministry of Economy is responsible for the structural and trade policies. The Ministry of Agriculture and Food Industry, the Ministry of Infrastructure and Regional Development and the Ministry of Labour and Social Protection also contribute to the structural policies to the extent pertaining to economic sectors under their responsibilities. Also the Monetary policy is defined by the National Bank of Moldova (NBM) which is independent from the Government. National Commission for Financial Market (NCFM) is another autonomous entity which regulates, authorizes and supervises the activity of professional participants in the non-banking financial market (capital market, insurance market and micro-financing). The reform of the financial sector supposes the consolidation of NBM prerogatives. In mid of 2023 the NBM will take over the regulation of insurance market and micro-financing.

The Governmental economic policies are defined in a cooperative and collegial manner. Cooperation takes place not only following informal discussions and routine meetings, but also as part of various formal technical working groups or policy coordination groups chaired or co-chaired by state secretaries of the respective ministries. As part of the formal policy coordination process, public authorities can issue statements (opinions) regarding the policy initiated by other authorities, which are included in the Table of Divergences accompanying the policy draft package and are officially considered (accepted fully or partially or rejected) by the policy initiator. To the necessary degree, the high-level coordination takes place at the level of Prime-Minister and final decisions are formally approved in Governmental meetings. The Medium-Term Budgetary Framework (MTBF) provides a very important venue for governmental economic policy coordination, as it includes such components as mid-term macroeconomic perspectives, tax policy, macro-budgetary framework and expenditures framework.

Main objectives of the fiscal policy are set in the Law No. 181/2014 on public finance and fiscal responsibility[1], which are:

[1] https://www.legis.md/cautare/getResults?doc_id=126152&lang=ro

- ensuring general fiscal discipline and stability of the national public budget on medium and long term;
- ensuring efficient management of the state debt and of the administrative-territorial units' debt, maintaining it at a sustainable level in the medium and long term;
- developing a predictable and transparent fiscal framework;
- optimizing tax burden and streamlining the tax administration system.

According to Law No. 181/2014 on public finance and fiscal responsibility, the Ministry of Finance is the central public authority responsible for fiscal policy. According to its Regulation, approved by the Government Decree No. 696/2017[2], the mission of the Ministry of Finance is to manage public finances, to implement the principles of good governance, to develop effective public policies and to monitor the quality of policies and rules in the following areas:

- *public finance* - budget; public sector debt, state guarantees and state on-lending; state assets; financial inspection; public capital expenditures;
- *taxes and fees;*
- *customs*;
- *accounting and reporting in the budgetary system*;
- *accounting and auditing in the corporate sector*;
- *public procurement*;
- *external assistance*;
- *internal public financial control*;
- *payroll in the budget sector*;
- *evaluation activity.*

The fiscal policy is implemented by subordinated bodies of the Ministry of Finance – State Tax Service, Customs Service, Financial Inspection and Procurement Agency.

The institution in charge with establishing and implementing the monetary and foreign exchange policy is the National Bank of Moldova (NBM). According to Article 4 of the Law on the National Bank of Moldova, the primary objective of the NBM is to ensure and maintain price stability. Additionally, without prejudice to the primary objective, the NBM aims at ensuring the stability and viability of the banking system and supporting the general economic policy of the state.

The NBM has the following basic tasks: establishing and implementing the state monetary and foreign exchange policy, acting as banker and agent of the state; conducting economic analyses; licensing, regulating and supervising the activity

[2] https://www.legis.md/cautare/getResults?doc_id=121803&lang=ro

of banks; establishing, licensing, operating, regulating, and supervising financial market infrastructures; acting as the sole issuer of the national currency; establishing the exchange rate regime of the national currency; holding and managing foreign exchange reserves; assuming, on behalf of the Republic of Moldova, obligations and performing transactions resulting from the participation of the Republic of Moldova in the activity of international public institutions in banking, credit, and monetary areas; elaborating the balance of payments, international investment position, and external debt statistics; performing foreign exchange regulation; licensing, regulating, and supervising payment services provision; acting as a resolution authority for the banks.

Ensuring cooperation for monetary and financial purposes between the MoF and the NBM is carried out on the basis of the Memorandum of Understanding between the parties signed on October 19, 2017 through joint working meetings. Working groups of MoF and NBM representatives shall meet on a monthly basis, at the proposal of one of the parties, through regular consultations and exchanges of information on matters of key areas of common interest. Actually, joint meetings took place regularly, as needed, at least on a quarterly basis.

Nonetheless the mandate separation and the mutual institutional independence, NBM and Government of the Republic of Moldova cooperate for coordination of the general economic policy of the state. If requested, the NBM shares with the Governmental economic and financial bodies information related to monetary and financial problems. On their turn, if requested, these bodies share with the NBM information related to macroeconomic, monetary and financial problems. The NBM Governor can assist and speak at Governmental meetings and can present written follow-up statements regarding the policy problems discussed. At the same time, the Government ministries responsible for economic and financial problems are allowed to participate (without the right to vote) to the meetings of the NBM Supervisory Board and Executive Board. On an annual basis, when developing the state budget draft, the Government consults the NBM on current economic and financial context, with the latter providing a report on these matters.

Under Art. 6 of the Law No. 548/1995 on the National Bank of Moldova[3], the NBM shall cooperate with the Government in pursuing its objectives and, in accordance with the law, take the necessary actions in order to promote such cooperation. The National Bank shall provide to the economic and financial bodies of the Government, upon their request, information on monetary and financial matters. These bodies shall also provide to the National Bank, upon its request, information concerning macroeconomic, monetary or financial matters. Any draft normative act that is within the fields of competence of the National Bank shall be adopted by the public authorities after receiving the National Bank’s opinion. The opinion shall be submitted within 30 days from the date of request.

[3] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995

The NBM's Governor chairs the Financial Stability Board. The Board is an important policy platform which also includes the Ministry of Economy, the Ministry of Finance, the chairperson of the National Commission for Financial Market and the general executive director of the Bank Deposits Guarantee Fund. The law allows, whenever necessary, an extension of the Board membership. The Board provides the venue for coordination of the macroprudential policy, prevention, reduction and eradication of systemic risks affecting financial stability as well as for the management of systemic financial crisis situations.

Under Art. 37 of the Law No. 548/1995 on the National Bank of Moldova, the National Bank shall have the duty to consult the Government on all significant monetary and financial matters that are within its field of competence, and the Government shall have the duty to consult the National Bank on matters that are within its field of competence.

Annually, at the elaboration of the state budget, the Government shall seek the advice of the National Bank on financial and economic matters, and the National Bank shall submit to the Government a report on these matters.

Annually, the Government shall seek the advice of the National Bank on the Government's objectives with regard to the domestic and external borrowings of the public sector for the next financial year, including the amounts to be contracted and the conditions of such borrowings. The borrowings of the state and its bodies shall be reported to the National Bank in the manner established by the National Bank.

In October 2017, the NBM and the Ministry of Finance concluded a Memorandum of Understanding to collaborate on a variety of monetary and financial matters, including banking system liquidity forecasting, Treasury account projections, Government Securities issuance calendars, and Government term deposit placement at the NBM. Members of the working groups from the Ministry of Finance and the NBM discuss and exchange information prior to and during periodic meetings.

Under the Article 40 of the Law No. 548/1995 on the National Bank of Moldova, the National Bank of Moldova, by agreement with the Ministry of Finance, acts as the State agent for state securities in book-entry form regarding: organization and development, on behalf of the Ministry of Finance, of the placement of state securities on the internal market; providing consultancy for Ministry of Finance in the continued development of state securities market; other operations in accordance with the fundamental objective and basic tasks of the National Bank.

Under the Article 76^1 of the Law No. 548/1995 on the National Bank of Moldova, annually, for the corresponding budgetary year, the Government and the National Bank of Moldova shall agree on the balance of the state debt previously contracted from the National Bank of Moldova.

2. Which are the consultative bodies involved in the economic policy decision-making process? To what extent are social partners involved? If relevant, what is the time given to social partners and other consultative bodies to provide their input?

The economic policy decision-making process involves many consultative bodies and formats. Individual policy authorities consult stakeholders on a regular and formal basis regarding early-stage policy drafts. For these purposes, authorities make use of public lists of stakeholders which include representatives of the trade-unions, think-tanks, business associations, academia and other interested parties. Lists are open for any stakeholder willing to propose itself for inclusion. In line with legal provisions, social partners, i.e., representatives of the trade-unions and of employers' confederations, are mandatorily included in the economic policy consultation process. The Ministry of Finance's list includes 32 stakeholders, the Ministry of Economy – 65 stakeholders (clustered in 4 policy areas), the Ministry of Infrastructure and Regional Development – 106 stakeholders. While not declaring a formal list of interested parties, the NBM usually displays most of its decision drafts on its website and allows the public a reasonable time for feedback.

The Medium-Term Budgetary Framework (MTBF) provides a very important venue for governmental economic policy coordination, as it includes such components as mid-term macroeconomic perspectives, fiscal policy, macro-budgetary framework and expenditures framework. While the Ministry of Finance is the legally entitled entity responsible for the development of the MTBF, the process relies on substantial inputs and participation of various public and civic stakeholders organized in MTBF working groups. The four working groups that the Ministry of Finance enacted for MTBF purposes includes 56 members, including 17 positions held by representatives of the trade-unions, employers' confederation, think-tanks, academia and local public authorities (some representatives are included in more than one working group). Stakeholders are usually invited to provide written opinions regarding policy drafts in time periods from 10 to 15 days, which can be extended upon request. External stakeholders are also invited on an ad-hoc basis to contribute to policy monitoring and impact evaluation components.

In addition, a number of high-level consultative bodies exist. The National Commission for Collective Consultations and Negotiations (NCCCN), as well as similar commissions at the level of economic sectors and administrative territories, have been enacted by Law No.245/2006[4] with the purpose of ensuring the legal and institutional framework for trilateral (Government – trade-unions – employers unions) dialogue regarding social-economic problems. The agenda of NCCCN includes a number of issues related to labor, taxes, business regulation, minimum wage and a number of other structural measures and policies. In 2011 the Economic Council to the Prime Minister was established as an advisory body by the Government Decision No.631/20115. The Council has been assigned the

[4] https://www.legis.md/cautare/getResults?doc_id=107309&lang=ro
[5] https://www.legis.md/cautare/getResults?doc_id=116620&lang=ro

mission to facilitate the dialogue between the representatives of the business environment, donors' community and policy makers so as to develop a favorable social-economic climate and non-discriminatory, transparent and investment-conducive business environment. The Council membership extends to 56 business associations, 8 research institutions, 11 donors and 47 representatives of the public institutions and public authorities. Eight thematic groups work as part of the Council, which also includes the SMEs Consultative Board. The Council has also been mandated to perform functions of Trade Facilitation National Focal Point.

3. How is the economic policy coordination governed by the legislation?

The Law No. 181/2014 on public finance and fiscal responsibility[6] specifies institutional responsibilities of all relevant authorities, among which the Ministry of Finance is entitled with fiscal policy formulation and coordination responsibilities. The Law provides a clear budgetary cycle calendar with mandatory milestones, roles and functions, including those regarding the development of the Mid-Term Budgetary Framework. Competences of the Ministry of Economy as coordinator of structural components of the economic policy (including business regulation, domestic and foreign trade policy, quality infrastructure, etc.) are enshrined in the Ministry of Economy Regulation approved by Governmental Decision No.143/2021[7]. Roles of the Ministry of Agriculture and Food Industry and of the Ministry of Infrastructure and Regional Development as entities contributing to economic policies are defined by the corresponding institutional regulations which are also approved by Governmental decisions. The Law on the National Bank of Moldova No.548/1995[8] clearly stipulates the contents of its institutional independence and the ways in which the NBM should interact with other policy stakeholders. Standards regulating the public consultation and stakeholders' involvement in the policy cycle are defined in the Law on Decision-Making Process Transparency No.239/2008[9], the Government Decision No.967/2016[10] on Mechanism of Public Consultation of the Civil Society in the Decision-Making Process and a number of internal rules regarding procedures of public information, consultation and participation in the decision-making process.

[6] https://www.legis.md/cautare/getResults?doc_id=126152&lang=ro
[7] https://www.legis.md/cautare/getResults?doc_id=129163&lang=ro
[8] https://www.legis.md/cautare/getResults?doc_id=128657&lang=ro
[9] https://www.legis.md/cautare/getResults?doc_id=106638&lang=ro
[10] https://www.legis.md/cautare/getResults?doc_id=119856&lang=ro

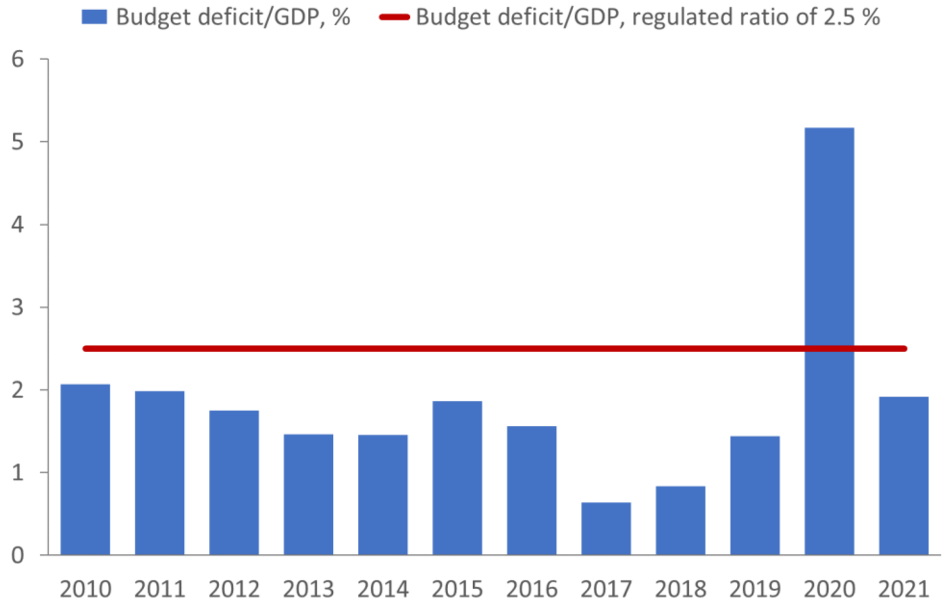
B. Acquis

Directive 2011/85 on requirements for budgetary frameworks

4. Does Moldova have numerical fiscal rules? Are they generally complied with? What is legally foreseen in case of non-compliance? Are legal actions against non-compliance always put in place?

The rules of the fiscal policy are provided in Law No. 181/2014 on public finance and fiscal responsibility[11]. 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 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. In general, the Republic of Moldova has complied with the 2,5% rule. Since 2010 the budget deficit has been lower than 2.5%. An exception from this trend was recorded in 2020, when during the economic decline caused by Covid pandemic the deficit rose up to 5.2% of GDP.

Evolution of budget deficit



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

[11] https://www.legis.md/cautare/getResults?doc_id=126152&lang=ro

- 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 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 macro-budgetary indicators, the measures undertaken and planned to comply with the rules of fiscal policy.

According to the budget balance rules, the trigger 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 decreases in revenue and/or to increases in 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.

According to the provisions of Law No.397/2003 on local public finances[12], the fiscal rule allows the local public authorities:

- 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.
- 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% of the total annual revenues of their budgets, except for special purpose transfers received from the state budget. The rule on the level of indebtedness is set at the level of every local authority, but not for consolidated local budgets.

[12] https://www.legis.md/cautare/getResults?doc_id= 129334&lang=ro

5. Does Moldova have an independent fiscal institution (IFI) tasked with providing independent assessments of fiscal policy making? Does the IFI assess or produce the macroeconomic forecast?

No IFI currently exists. The Ministry of Finance conducted in 2015-16 an analysis on fiscal governance in the Republic of Moldova in relation to EU practices. It analyzed the experience of several EU Member States and transition economies, with a view of assessing the merits and feasibility of establishing an IFI. However, human and financial resources constraints identified as part of the analysis were deemed at the time to be too high. A report on a possible Fiscal Council for Moldova and options for its institutional setup is available[13].

Medium-term budgetary frameworks

6. Does Moldova have a medium-term budgetary framework? If yes, how many years does the medium-term horizon cover?

The Law No. 181/2014 on public finance and fiscal responsibility [14] stipulate that 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, 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, it is ensured 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 in 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 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

[13] https://mf.gov.md/en/buget/transparen%C8%9Ba-bugetar%C4%83/guvernan%C8%9Ba-bugetar-fiscal%c4%83
[14] https://www.legis.md/cautare/getResults?doc_id=126152&lang=ro

medium-term budget reflects the results of the last two budget years, the estimated results for the current budget year (MTBF 2021-2023 [15]).

7. Does the framework contain objectives for the general government deficit, debt and projections for major expenditure and revenue items?

The medium-term budgetary framework is elaborated by the Ministry of Finance, jointly with other responsible public authorities, in accordance with the basic budgetary principles and rules established by Law No. 181/2014 on public finance and fiscal responsibility [16]. The medium-term budgetary framework includes:

- the macroeconomic framework contains information on the evolution of the main macroeconomic indicators that have implications for the budget;
- fiscal policy comprises:
  - tax policy, including changes in taxes and duties, as well as revenue administration policies;
  - expenditure policy, including priorities established on the basis of strategic planning documents;
  - state debt management policy and of the debt of administrative-territorial units;
  - fiscal risks analysis.
- the macro-budgetary framework, expressed in nominal terms and as a share of gross domestic product, includes:
  - the total revenues and expenditures of the national public budget and its components; (Forecasted revenues are split by main revenue types, while expenditures by main economic and functional categories.)
  - the personnel expenses of the national public budget and its components;
  - the primary balance of the national public budget;
  - the balance of the national public budget and its components;
  - the stock of the state debt and of the debt of the administrative-territorial units, both internal and external;
  - the stock of the state guarantees and of the guarantees of administrative-territorial units.
- the expenditure framework comprises the sectoral expenditure ceilings of the national public budget and its components, including inter-budgetary transfers.

[15] https://www.legis.md/cautare/getResults?doc_id=123891&lang=ro
[16] https://www.legis.md/cautare/getResults?doc_id=126152&lang=ro

8. Does the framework include a debt sensitivity analysis, showing how much debt would increase in the future also subject to specific shocks?

The MTBF contains policies on debt management, including external and domestic government debt, state guarantees, sources of financing and debt service. The fundamental objective of medium-term government debt management is to raise the required amount of funding at the lowest possible cost over the medium to long run, limiting the involved risks.

Subsequent to the elaboration of the MTBF, the Ministry of Finance elaborates/updates annually the Medium-term state debt management Program[17], which is approved by Government decision, in accordance with Art. 6 para. (4) of Law of the Republic of Moldova No.419/2006 on public sector debt [18], state guarantees and state onlending. The Program sets the debt management fundamental objectives, specific objectives, and actions to be implemented in order to ensure the financing needs and improvement of the structure of the state debt portfolio. The Program describes the base strategy for financing the state budget deficit and identifies the related cost and risk factors. The Program also includes a description of the structure of the state debt portfolio, alternative strategies, and risks that may affect the implementation of the Program. In order to avoid major exposure of the government debt to foreign exchange risk, interest rate risk and refinancing risk, the Program establishes targeted intervals for the main risk and sustainability parameters, based on the historical and current structure of the government debt portfolio and determines how future funding needs will be met. At the same time, the established intervals provide a high degree of flexibility in government debt management in order to respond to changing conditions in the financial markets, representing the relevant structure of the government debt portfolio. Shock scenarios are developed/updated annually, based on changes in the market conditions.

The medium-term government debt portfolio is within reasonable limits in terms of associated risks.

Transparency of general government finances and comprehensive scope of budgetary frameworks

9. Does the statistical office and /or the Ministry of Finance have/receive data for all sub-sectors of general government?

The Ministry of Finance has data for all sub-sectors of the general government. Each year according to the Government Decision on the approval of the Statistical

[17] https://mf.gov.md/sites/default/files/Program%202022-2024%20ro.pdf
[18] https://www.legis.md/cautare/getResults?doc_id=116876&lang=ro

Work Program, the Ministry of Finance submits the following information to the National Bureau of Statistics:

- Information on the execution of the total national public budget, broken down by types of budgets (state budget, state social insurance budget, compulsory health insurance funds and local budgets), by income and expenditure, according to economic and functional classification – annually;
- Information on the execution of the state budget and local budgets by revenue and expenditure according to economic and functional classification - quarterly and annually,
- Information on the execution of local budgets in territorial profile by revenue and expenditure, according to economic and functional classification - annually,
- Information on fixed assets, amortization of fixed assets (calculated) and depreciation of intangible assets of central government by country, including by central government - annually,
- Information for the Special Data Dissemination Standard (SDDS), containing data on revenue, expenditure, deficit, sources of deficit financing, and public debt - monthly and annually.

10. Does Moldova intend to align with the ESA 2010 methodology for the purpose of statistical reporting to the EU? Are accounting rules and procedures consistently applied across all sub-sectors of general government?

The Republic of Moldova produces macroeconomic statistics in accordance with the methodology of the United Nations, System of National Accounts 2008 (UN SNA 2008).

At the same time, the National Bureau of Statistics, being the coordinator of the National Statistical System, intends to align the production of the mentioned statistics with the functional standards of the European Union, respectively with the ESA 2010 methodology, for the purpose of statistical reporting to the EU.

At the moment, the accounting rules and procedures do not apply across subsectors of general government due to the lack of the institutional unit classifier into institutional sectors.

C. Acquis alignment

11. Which reforms may be needed in order to comply with the relevant Treaty provisions and a possible timetable for adoption?

PFM Development Strategy for 2013-2020, extended to 2022

The PFM Development Strategy (the "Strategy") for 2013-2020 was approved by Government Decree No. 573/2013[19], based on findings and recommendations arising from the Public Expenditure and Financial Accountability Assessment (PEFA 2011)[20], which provided comprehensive evidence on a wide range of topics related to the core components of public finance management. The aim of the strategy is to develop an efficient management of public finances, in order to contribute to the ultimate goal of sustainable growth.

The Strategy integrates seven components of the PFM in a single policy framework:

- **Component 1. Macro-budgetary framework,** which includes areas of macroeconomic forecast (including a forecast of revenues) and monitoring of public sector debt and of state guarantees.
- **Component 2. Budget preparation and planning**, which covers areas of budget credibility, transparency and comprehensiveness, budget policy perspectives, inter-budgetary relations, and public investments.
- **Component 3. Budget execution, accounting, and financial reporting** refer to areas regarding the execution of the budget, money management, reporting on the execution of the budget, accountability, and financial reporting.
- **Component 4. Financial management and internal control**, which covers areas like internal control, internal audit, and financial inspection.
- **Component 5. Revenue management** aims to ensure an adequate level of budget revenues by implementing modern, fair, and coherent measures of fiscal and customs administration.
- **Component 6. Public procurement** aims to develop a modern public procurement system in line with European Union standards.
- **Component 7. Public Finance Management Information System**, refers to the development and implementation of the PFM Informational System.
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Amending and updating the PFM Development Strategy in January 2021

[19] https://www.legis.md/cautare/getResults?doc_id=125548&lang=ro
[20] https://mf.gov.md/sites/default/files/pefa_2011.pdf

In the last year of Strategy implementation (2020), systematic monitoring undertaken by the Ministry of Finance, based on annual performance indicators, revealed missed deadlines, due primarily to political instability in 2019 and the effects of the pandemic in 2020. Because objectives and most of the reform measures in the Strategy remained relevant, the implementation period of the PFM Development Strategy 2013-2020 was extended for another two years to 2022. This decision was supported by development partners and aligned with the EU Delegation. Thus, the Government Decree No. 573/2013 on PFM Strategy 2013-2020 was amended by Government Decree No. 9/2021. Annual actions planned as part of the PFM Development Strategy are integrated into the annual working plan of the Ministry of Finance.

The Ministry of Finance is undertaking an ex-post evaluation of the current PFM Development Strategy with the support of OECD/SIGMA. As part of the evaluation process, an ex-ante impact assessment of policy priorities in PFM areas is also being carried out with the support of GIZ. At the same time the 2021 PEFA (Public Expenditure & Financial Accountability) has been completed and the final report will be issued soon. All three exercises will lay the ground for an updated PFM strategy for the forthcoming period which is expected to be completed by the end of 2022.

12. As regards Articles 212 the TFEU, what does the legislation state in the field of international treaties regulating the receipt of foreign assistance? Under which conditions is financial assistance from abroad allowed?

The national legislation regulating the receipt of foreign assistance is as follows: a) Law No. 595/1999[21] on international agreements and Government Decision No. 442/2015[22] on the mechanism of concluding, implementing and finalizing international agreements; b) Government Decision No.377/2018[23] regulating the institutional framework and the mechanism of coordination and management of external assistance; c) Law No. 419/2006 on public sector debt[24], state guarantees and state onlending, as well as of Government Decision No. 1136/2007[25] on certain measures for the execution of Law No. 419/2006.

Therefore, under the provisions of Government Decision No. 377/2018, during the coordination process, especially at the programming stage, the Government ensures, in a coordinated manner, consistency between external assistance, sectoral priorities, and approved budget calendar under the provisions of the Law on public finance and fiscal budget responsibility No. 181/2014[26].

[21] https://www.legis.md/cautare/getResults?doc_id=92552&lang=ro
[22] https://www.legis.md/cautare/getResults?doc_id=83995&lang=ro
[23] https://www.legis.md/cautare/getResults?doc_id=117564&lang=ro
[24] https://www.legis.md/cautare/getResults?doc_id=116876&lang=ro
[25] https://www.legis.md/cautare/getResults?doc_id=121747&lang=ro
[26] https://www.legis.md/cautare/getResults?doc_id=126152&lang=ro

Additionally, during the process of external assistance planning, the Government displays fiscal prudence in accordance with the provisions of the Law on public finance and fiscal-budget responsibility No. 181/2014[27] and Law No. 419/2006[28] on public sector debt, state guarantees, and state onlending.

The external assistance agreements are usually concluded in accordance with the national legislation on international agreements, such as the Law No. 595/1999[29] on international agreements and Government Decision No. 442/2015[30] on the mechanism of concluding, implementing and finalizing the international agreements. The Ministry of Foreign Affairs and European Integration, in each particular case, makes a statement on the applicability of the Law on international agreements.

The external state loan agreements are concluded in accordance with the provisions of Law No.419/2006, as well as Government Decision No. 1136/2007[31].

[27] https://www.legis.md/cautare/getResults?doc_id=126152&lang=ro
[28] https://www.legis.md/cautare/getResults?doc_id=116876&lang=ro#
[29] https://www.legis.md/cautare/getResults?doc_id=92552&lang=ro
[30] https://www.legis.md/cautare/getResults?doc_id=83995&lang=ro
[31] https://www.legis.md/cautare/getResults?doc_id=121747&lang=ro#

II. MONETARY POLICY

A. Acquis Central bank functional, institutional, personal and financial independence

13. What is the degree of functional independence of the central bank? Does the central bank have at its disposal all instruments and competencies necessary to conduct an efficient monetary policy and is it authorised to decide autonomously how and when to use them?

According to the Law No. 548/1995 on the National Bank of Moldova[32], the National Bank of Moldova (equivalent name – the National Bank) is the central bank of the Republic of Moldova. The National Bank of Moldova (NBM) is an autonomous public legal entity and is responsible to the Parliament. One of the basic tasks of the NBM is establishing and implementing the state monetary and foreign exchange policy.

Under Article 6 of the law the National Bank and the members of its decision-making bodies shall be independent in exercising the tasks conferred upon them by this law, and shall neither seek nor take instructions from public authorities or from any other authority. Public authorities, as well as any other authorities, shall not seek to influence the members of the decision-making bodies of the National Bank in exercising their duties. Without prejudice to the provisions of Article 11 paragraph (4) and Article 11^1, any public authority or any other third party cannot approve, suspend, cancel, censor, adjourn or condition the entry into force of the National Bank's acts, neither may issue opinions ex-ante on National Bank's acts, nor otherwise influence the issuance of the final act of the National Bank.

Chapter II Monetary and foreign exchange policy of the Law on the National Bank of Moldova, Article 14 (Monetary policy instruments) states: with a view to exercising its monetary and foreign exchange policy tasks, the National Bank shall undertake measures, including those described in the present chapter.

The articles included in this chapter describe: open market operations, foreign exchange operations and other operations, minimum reserves of banks, credit to banks, liquidity assistance in emergency situations, granting loans to the Deposit Guarantee Fund.

The Medium-term monetary policy strategy of the NBM, approved by the Decision No. 303 of 27 December 2012[33], contains medium-term strategic activity directions of the monetary authority in the Republic of Moldova, oriented towards achieving the fundamental objective of "ensuring and maintaining price stability".

[32] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995
[33] https://www.bnm.md/en/content/medium-term-monetary-policy-strategy-0

To ensure and maintain price stability, the central bank implements the direct inflation targeting regime.

The inflation target of 5 percent 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 reserves ratio, and interventions in 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 Executive Board of NBM and is the main indicator for the interbank monetary market in the short run.

14. What is the degree of institutional independence of the central bank from public authorities (President, Government, especially Ministry of Finance, Parliament etc.)? What is the specific role of those actors vis-à-vis the central bank? Describe the situation both in legal terms (information based on the central bank law) and in practice.

According to the Law No. 548/1995 on the National Bank of Moldova[34], the National Bank of Moldova (equivalent name – the National Bank) is the central bank of the Republic of Moldova. The National Bank of Moldova (hereinafter NBM) is an autonomous public legal entity and is responsible to the Parliament.

Under the Article 69 of the law the National Bank shall submit to the Parliament in a plenary session, by June the 1st, a report that includes information on: financial statements certified by the external auditor; activity and its operations for the concluded financial year; economic situation of the State. A copy of the report shall be submitted to the President of the Republic of Moldova for information purposes. National Bank shall submit quarterly, within 45 days from the end of the quarter, a report to the Parliament and Government, a report which contains the analysis of the macroeconomic situation and a medium term forecast on inflation and main macroeconomic indicators, which is published in the indicated time limit.

Under Article 6, of the Law on the National Bank of Moldova, the NBM shall cooperate with the Government in pursuing its objectives and, in accordance with the law, take the necessary actions in order to promote such cooperation. The National Bank shall provide to the economic and financial bodies of the Government, upon their request, information on monetary and financial matters. These bodies shall also provide to the National Bank, upon its request, information concerning macroeconomic, monetary or financial matters. Any draft normative act that is within the fields of competence of the National Bank shall be adopted by the public authorities after receiving the National Bank's opinion.

The National Bank and the members of its decision-making bodies shall be independent in exercising the tasks conferred upon them by this law, and shall

[34] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995

neither seek nor take instructions from public authorities or from any other authority. Public authorities, as well as any other authorities, shall not seek to influence the members of the decision-making bodies of the National Bank in exercising their duties. Without prejudice to the provisions of Article 11 paragraph (4) and Article 11^1, any public authority or any other third party cannot approve, suspend, cancel, censor, adjourn or condition the entry into force of the National Bank's acts, neither may issue opinions ex-ante on National Bank's acts, nor otherwise influence the issuance of the final act of the National Bank.

In order to ensure the stability of the financial system, in cases of systemic financial crisis or threat of its occurrence, defined so by the national body created for the management of systemic financial crises, the National Bank may decide to adopt measures for financial stabilization, by which the National Bank may impose the suspension and/or limitation of any payment liability or delivery obligation resulting from any contract concluded with an entity supervised by the National Bank, or of any of its activity/operation, from the date of publication of this decision on the official website of the National Bank, for a period of up to 6 months. The decision on the application of measures for financial stabilization shall be taken by the National Bank in consultation with the Government.

Under Article 19 of the Law on the NBM, if the level of statutory capital decreases below 4.0 percent of the total monetary liabilities of the National Bank of Moldova at the end of the financial year, the Government, in the person of the Ministry of Finance, within 60 days from the receipt of the external auditor's report on the financial situations of the National Bank, shall transfer to the National Bank, as a capital contribution, state securities bearing interest at market-related rates in the amount necessary for replenishing the statutory capital up to 4.0 percent of the total monetary liabilities of the NBM. When statutory capital ranges between 4.0 percent and 10.0 percent of total monetary liabilities of the NBM, 50 percent of profit available for distribution shall be allocated to increase statutory capital, and 50 percent of profit available for distribution shall be transferred to supplement the state budget revenue. When statutory capital exceeds 10.0 percent of total monetary liabilities of the NBM, profit available for distribution shall be transferred in full to supplement the state budget revenue.

Under Article 37 of the law, the National Bank shall have the duty to consult the Government on all significant monetary and financial matters that are within its field of competence, and the Government shall have the duty to consult the National Bank on matters that are within its field of competence.

Annually, at the elaboration of the state budget, the Government shall seek the advice of the National Bank on financial and economic matters, and the National Bank shall submit to the Government a report on these matters.

Annually, the Government shall seek the advice of the National Bank on the Government's objectives with regard to the domestic and external borrowings of the public sector for the next financial year, including the amounts to be contracted and the conditions of such borrowings. The borrowings of the state and its bodies shall be reported to the National Bank in the manner established by the National Bank.

Under the Article 40 of the law the National Bank, by agreement with the Ministry of Finance, acts as the State agent for state securities in book-entry form regarding: organization and development, on behalf of the Ministry of Finance, of the placement of state securities in the domestic market; providing consultancy for the Ministry of Finance in the continued development of the state securities market; other operations in accordance with the fundamental objective and basic tasks of the National Bank.

Under the Article 76^1 of the law, annually, for the corresponding budgetary year, the Government and the National Bank shall agree on the balance of the state debt previously contracted from the National Bank.

In practice, the situation is similar to that described in legal terms. The NBM continuously cooperates with the Government of the Republic of Moldova, with public authorities (especially the Ministry of Finance), including the National Bureau of Statistics, the National Commission for Financial Market, the National Agency for Energy Regulation, the National Regulatory Agency for Electronic Communications and Information Technology, State Hydro Meteorological Service of the Republic of Moldova, aiming at promoting the monetary policy.

15. Does the central bank have any ex ante reporting obligations towards other authorities regarding its monetary policies?

Under Article 6, (2) of the Law No. 548/1995 on the National Bank of Moldova[35], the NBM shall provide to the economic and financial bodies of the Government, upon their request, information on monetary and financial matters. These bodies shall also provide to the National Bank, upon its request, information concerning macroeconomic, monetary or financial matters.

Under the Article 69 of the law, the National Bank shall submit to the Parliament in a plenary session, by June the 1st, a report that includes information on: financial statements certified by the external auditor; activity and its operations for the concluded financial year; economic situation of the State. A copy of the report shall be submitted to the President of the Republic of Moldova for information purposes.

National Bank shall submit quarterly, within 45 days from the end of the quarter, a report to the Parliament and Government, which contains the analysis of the macroeconomic situation and a medium term forecast on inflation and main macroeconomic indicators, published in the indicated time limit.

[35] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995

16. How is the management of the central bank organized (composition and responsibilities of the governing bodies, in particular the managing board)?

The Law No. 548/1995 on the National Bank of Moldova[36], provides the organization and administration, the governance of the NBM.

The structure of corporate governance includes the following layers: Supervisory Board and Executive Board, the Governor, committees that support governing bodies, and external and internal control levels. This structure is complemented by the compliance and ethics framework, which includes the Code of Conduct for NBM Employees, the Anti-Fraud Policy of the NBM, the Information Security Policy, as well as the public access to normative acts, statistics and publications of the NBM.

Governance of the NBM is exercised by the following subjects:

Governor

The Governor of the National Bank is appointed by the Parliament at the proposal of the Chairman of the Parliament. In accordance with the Law on the National Bank of Moldova, the governor is responsible for formulating monetary and foreign exchange policy initiatives for submission to the Executive Board, as well as their execution. Also, the governor organizes and manages the activity of the bank and represents it in relations with any legal or natural person both in the Republic of Moldova and abroad, issues orders and mandatory provisions for the NBM's employees, and controls their execution.

Supervisory Board

The Supervisory Board consists of seven members appointed by the Parliament for a seven-year term, including 4 non-salaried members of the NBM, 3 members belonging to the executive structure of the National Bank: the governor, the first deputy-governor, and a deputy governor.

In exercising its powers attributed by law, the Supervisory Board:

- approves the annual report and the annual financial statements;
- adopts the internal control system standards, continuously checks and assesses the operation of the internal control system;
- adopts the rules of professional ethics;
- determines the payroll fund of the National Bank, the level of remuneration of the members of the Executive Board, and the amount of

[36] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995

monthly indemnities of the members of the Supervisory Board who are not members of the Executive Board;

- approves the National Bank's estimates of expenses and investment allowances and monitors their execution;
- selects, on a tender basis, the external audit organization;
- establishes the method by which the committees are created and operate in National Bank;
- determines the nominal value, the design of banknotes and metallic coins, the way of putting into circulation and the conditions for their withdrawal from circulation. The Supervisory Board submits to the Parliament, at least annually, reports on the supervision activity.

Executive Board

The Executive Board is composed of 5 members appointed by the Parliament: the governor, the first vice-governor and three vice governors. The Chairman of the Executive Board is the Governor of the National Bank. According to the Law on the National Bank of Moldova, the main tasks of the Executive Board are:

- to establish the monetary policy in the state;
- to establish the foreign exchange policy in the state and the exchange rate regime of the national currency;
- to decide on the procedure of issuing licenses, authorizations, permits, approvals by the National Bank;
- to examine the results of the controls performed at the entities supervised by the National Bank and the adoption of the related decisions;
- to decide the issuance of the claims of the National Bank, the volume and conditions for their issuance;
- to adopt the normative acts of the National Bank;
- to ensure the implementation of the Supervisory Board's decisions;
- to plan and organize the current activity of the National Bank.

The Executive Board is also empowered to discharge any other tasks that do not fall within the remit of the Supervisory Board.

Committees

The Audit Committee, the Investment Committee and the Risk Committee operate within the NBM to ensure the efficiency of the decision-making process. These standing committees have their own rules of procedure, which detail the specific purpose, composition, tasks and responsibilities.

17. Which provisions from the law ensure democratic accountability and transparency of the central bank?

Law No. 548/1995 on the National Bank of Moldova[37] provides a robust framework ensuring accountability and transparency of the central bank activity. These are the following (inter alia):

Article 8 (1) The National Bank shall periodically inform the public on the results of the macroeconomic analysis, the evolution of the financial market and on statistical information, including with regard to monetary supply, crediting, balance of payments and the state of the foreign exchange market.

(2) The National Bank shall cooperate with the Government on financial and budgetary matters.

(3) The Governor of the National Bank or the members of the Supervisory Board or Executive Board shall explain to the Parliament or to its standing committees the policy of the National Bank, and shall submit opinions on draft laws, upon the request of the Parliament.

Article 11

(2) The National Bank's normative acts, that are mandatory for the banks and other legal entities and natural persons, shall be published in the Official Monitor of the Republic of Moldova and shall enter into force on the date of their publication or on another date provided in the act, under the condition of informing the public.

(4) The acts issued by the National Bank are subject to review of legality by the administrative courts, in accordance with the procedure established by the Administrative Code.

Article 21

(1) Annually, all administrative expenditures and capital investments of the National Bank are provided in the expense estimate and in the investment allowances, accordingly, which are approved by the Supervisory Board and are verified during enforcement, according to the practices and procedures of the internal audit and control.

(2) The legality and regularity of expenditure estimates and investments allowances of the National Bank shall be audited by the Court of Accounts. The public external audit of the Court of Accounts shall be limited to the examination of the operational efficiency of the decisions taken by the National Bank's management, excluding those related to the implementation of monetary and foreign exchange policy of the National Bank and to the state foreign exchange reserves management.

[37] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995

Article 22

(3) The Supervisory Board is the body responsible for the organization of an efficient system of public independent supervision of the activity of the National Bank.

(4) If the international reserve diminishes or the National Bank estimates that it is going to diminish to such an extent as to jeopardize the implementation of the foreign exchange policy or the timely fulfillment of the international transactions, the National Bank shall submit to the Parliament and to the Government a report on the state of international reserves and on the causes which have led or may lead to such a reduction. The report shall also contain recommendations to remedy the situation.

Article 53

(5) The National Bank shall continue to make such reports and recommendations, until, in its opinion, the situation has been remedied.

Article 66

National Bank shall maintain at all times accounts and records adequate to reflect, in accordance with internationally accepted accounting practices, its operations and financial condition.

Article 67

At the end of each financial year, the National Bank shall prepare financial statements in accordance with financial reporting standards accepted in the international practice.

Article 68

The annual financial situations, accounts and records of the National Bank shall be subject to annual external audit, in accordance with international standards on auditing, conducted by an external audit organization, which shall be independent, with a recognized reputation and experience in the auditing of central banks and international banks, selected by the Supervisory Board on auction basis. The external auditor’s report shall be published together with the annual financial situations of the National Bank. The same external audit organization may not be appointed consecutively for a period exceeding five years.

Article 69

(1) National Bank shall submit to the Parliament in a plenary session, by June the 1st, a report that includes information on:

a) financial statements certified by the external auditor;

b) activity and its operations for the concluded financial year;

c) economic situation of the State.

(1^1) A copy of the report shall be submitted to the President of the Republic of Moldova for information purposes.

(2) National Bank shall submit quarterly, within 45 days from the end of the quarter, a report to the Parliament and Government, which contains the analysis of the macroeconomic situation and a medium term forecast on inflation and main macroeconomic indicators, which is published in the indicated time limit.

(3) National Bank may publish the financial statements and reports referred to in paragraphs (1) and (2), as well as any other financial and economic reports and studies.

(4) National Bank publishes on an annual basis the state's balance of payments.

(5) National Bank shall make public the balance of payments, international investment position and external debt statistics of the Republic of Moldova:

a) provisional data – quarterly, within 3 months from the end of the operating quarter;

b) final data – annually, within 9 months from the end of the operating year.

18. On personal independence, what are the appointment and removal conditions and procedures for the central bank governor and the other members of the decision-making bodies of the central bank?

According to the Law No. 548/1995 on the National Bank of Moldova[38], the Governor of the National Bank is appointed by the Parliament upon the proposal of the Chairman of the Parliament.

The First Deputy Governor and the Deputy Governors of the National Bank are appointed by the Parliament upon the proposal of the National Bank Governor.

One member of the Supervisory Board is appointed by the Parliament upon the proposal of the National Bank Governor, and four members of the Supervisory Board are appointed by the Parliament, upon the proposal of the Commission on economy, budget and finance of the Parliament, according to the procedure established by the Commission.

A candidate may be nominated to Parliament for appointment not more than twice a year.

[38] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995

The Law on NBM prescribes clear eligibility requirements applicable to the members of the Supervisory Board and of the Executive Committee. These requirements pertain to, inter alia, reputation, integrity, education, professional experience.

Members of the Supervisory Board and of the Executive Committee are appointed for a period of 7 years, with the possibility of renewing the mandate. On the expiry of the mandate, the member of the Supervisory Board or Executive Committee shall remain in office until a new member is appointed.

Members of the Supervisory Board and Executive Committee may resign with a 3-month prior notification in written form submitted to the public authority that appointed them.

Any member of the Supervisory Board or of the Executive Committee may be revoked by the Parliament under the procedure set out in Art. 23 para. (11) (Law on the NBM) only when he/she does not meet the conditions for performing duties any longer, has committed a serious infringement, has concluded directly or through a third party a legal act or has participated in decision making without resolving a real conflict of interest according to the provisions of legislation regulating conflicts of interest, has not submitted his declaration of property and personal interests or has refused to submit it under Art. 27, para. (8) of the Law No. 132/2016 on the National Integrity Authority[39], or the court has issued a judgement ordering confiscation of unjustified wealth.

Art. 23, para. (11) of the Law on the NBM: The Chairman of the Supervisory Board is dismissed at the proposal of the Chairman of the Parliament, by the vote of 2/3 of the total number of the elected members of the Parliament. The dismissal of other members of the Supervisory Board and Executive Committee is carried out at the proposal of the Supervisory Board, proposed at the request of the Governor of the National Bank or upon a proposal of the Chairman of the Parliament by a majority of the elected members of the Parliament.

19. As for financial independence, is the central bank in a position to avail itself of the appropriate means to ensure that its tasks can be properly fulfilled? Does a consultation on and/or right exist for a third party to amend, approve or control by any means the central bank's draft budget and annual accounts? If yes, where is it regulated?

The independence of the NBM is enshrined in the Law No. 548/1995 on the National Bank of Moldova[40].

The Law on the National Bank of Moldova includes mechanisms to ensure it has adequate financial resources to fulfil its mandate, as to dispose of own assets and finances according to the provisions of the law, to maintain adequate capital levels

[39] https://www.legis.md/cautare/getResults?doc_id=128394&lang=ro#
[40] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995

and recapitalization mechanisms, and resources to generate income to protect the NBM's policy solvency and capital adequacy.

Article 3 of the Law stipulates that the NBM is empowered to enter into contracts and issue obligations and to acquire and dispose of movable and immovable property, to exercise its tasks and for its operational needs.

Pursuant to Article 5, 16, 53 and 71 of the Law on the National Bank of Moldova, the Bank maintains and manages the foreign exchange reserves, performs foreign exchange operations using foreign reserve assets and maintains them at an adequate level for the conduct of the monetary and foreign exchange policy of the state.

In respect of human resources, article 34 of the law establishes that the Executive Board of the NBM adopts the Regulation on the staff of the National Bank and decides upon remuneration of the staff according to the law in a way that ensures the internal equity and external competitiveness, strengthens the institutional capacity, the continuity of the activity and the human resources, according to international accepted principles. The Governor shall appoint and dismiss the staff of the National Bank in accordance with the conditions established by the Executive Board.

The capital of the National Bank includes the statutory capital, the reserve accounts under IFRS and reserve accounts of unrealized gains. The statutory capital is the sum of the authorized capital and of the general reserve fund. The authorized capital is fully subscribed and held exclusively by the state; the capital shall not be transferable or subject to encumbrance.

The statutory capital is dynamic and shall be formed from the annual profit available for distribution, until it reaches the value of 10% of the total monetary liabilities of the National Bank and shall have the following structure: a) 1/3 – the authorized capital b) 2/3 – the general reserve fund

None of the decreases in the monetary liabilities' level, neither during nor at the end of the financial year, shall imply the reduction of the previously created statutory capital. The general reserve fund shall be used exclusively for covering the incurred losses in accordance with the results of the accounting period as at the end of the financial year.

The recapitalization mechanisms provided by the law under Article 19 provides that if the level of statutory capital decreases below 4.0 percent of the total monetary liabilities of the NBM at the end of the financial year, the Government, in the person of the Ministry of Finance, within 60 days from the receipt of the external auditor's report on the financial situations of the National Bank, shall transfer to the National Bank, as a capital contribution, state securities bearing interest at market-related rates in the amount necessary for replenishing the statutory capital up to 4.0 percent of the total monetary liabilities of the NBM. The issue of capital contribution in the form of state securities and its transfer to the

NBM shall take place in a single tranche, during the following year after the statutory capital goes below 4.0 percent.

The law allows the NBM to retain realized profits up to a level where statutory capital equals ten percent of monetary liabilities according to a gradual mechanism of distribution described below, while the general reserve is available to cover realized losses and debit balance unrealized revaluation reserves if unrealized reserves are insufficient to cover the unrealized losses for the year.

Regarding the **financial planning** of administrative activity, pursuant to article 21 of Law on the National Bank of Moldova, annually, all administrative expenditures and capital investments of the National Bank are budgeted in the expense estimate and in the investment allowances, accordingly, which are approved by the Supervisory Board only, without third party consultation or pre-approval. The legality and regularity of the execution of expenditure estimates and investments allowances of the National Bank is verified ex-post by the Court of Accounts (state audit institution). The public external audit of the Court of Accounts is limited to the examination of the operational efficiency of the decisions taken by the National Bank's management, excluding those related to the implementation of monetary and foreign exchange policy of the National Bank and to the state foreign exchange reserves management.

Additionally, the NBM prepares, for internal purposes, financial plans determining estimated streams of income and expenditures for the next financial year, including the streams from monetary policy, foreign exchange policy, foreign reserve management, lending activity and banking services to both the state and financial institutions etc. The financial plan for the coming year is used internally for management purposes and for monitoring the capital allocation, reserves and forecasts of funding and is presented to the Executive Board.

The financial statements of the NBM are prepared in accordance with the international standards of accounting, such as International Financial Reporting Standards. The annual financial statements, accounts and records of the National Bank shall be subject to annual external audit, in accordance with international standards on auditing, conducted by an external audit organization, which shall be independent, with a recognized reputation and experience in the auditing of central banks and international banks, selected by the Supervisory Board on auction basis. The external auditor’s report shall be published together with the annual financial situations of the National Bank and is presented together with the Annual report to the Parliament.

In respect of the financial accounts and budgeting, the Supervisory Board is responsible for adopting the standards of the internal control system, the risk management framework, verifying and assessing continuously its functioning and its elements, approving the financial statements and the Administrative expense and Capital allocations budget. The Supervisory Board is assisted by the Audit Committee, which in turn provides advice/opinions on the monitoring of the financial reporting processes of the Bank and on the efficiency of the internal control system, and monitors the independence and the activity of the external audit.

There are no consultations with third parties and no mechanisms for a third person to supplement, approve, control, or in any other similar way influence the preparation and adoption of the NBM's Administrative expense and Capital allowance plan (budget) and the NBM financial statements.

20. What are the provisions governing the distribution of the central bank's profits?

The mechanism of calculation and distribution of the profit of the NBM is regulated by the Law No. 548/1995 on the National Bank of Moldova[41], article 20. Profit distribution and losses coverage.

The profit available for distribution obtained by the NBM represents the net profit according to IFRS obtained after the allocation of unrealized gains to the corresponding reserves of unrealized gains and after covering unrealized losses from sources of the corresponding reserves of unrealized gains, until their balance becomes zero and after the distribution to statutory capital of realized gains from banknotes and coins withdrawn from circulation, but not exchanged within the prescription /exchange period allocated, pursuant the Article 64, paragraph (3) of the Law on the National Bank of Moldova. Unrealized gains and losses mainly comprise those from foreign exchange and fair value revaluation according to IFRS.

According to the profit allocation mechanism, if the amount of the statutory capital of the Bank at the end of the financial year, before the allocation of the financial result of the current year, ranges from 4% to 10% of the monetary liabilities of the NBM, 50% of the profit available for distribution shall be allocated for the increase of the statutory capital as provided in Article 19 paragraph (3), and 50% of the profit available for distribution shall be transferred to the State Budget.

If statutory capital exceeds the level of 10% of the monetary liabilities of the NBM, the profit available for distribution shall be transferred to the State Budget in full.

21. Does the *ex post* review of the central bank's accounts reflect adequate safeguards to prevent it from infringing on the bank's independence?

According to the Law No. 548/1995 on the National Bank of Moldova42, the annual financial statements are approved by the NBM Supervisory Board and are audited in accordance with international standards on auditing, conducted by an

[41] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995
[42] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995

external audit organization, which shall be independent, with a recognized reputation and experience in the auditing of central banks and international banks, selected by the NBM Supervisory Board. The independent auditors' report is addressed to the NBM Supervisory Board. The Audit committee monitors the activity of the external auditors.

Besides the regular annual audit by the independent external auditor, the compliance of National Bank of Moldova operations in the part where they refer to administrative expenses and capital allocations are subject to the audit by the Court of Accounts (state audit institution) according to the Law No. 548/1995 on the National Bank of Moldova[43], article 21. The public external audit of the Court of Accounts is limited to the examination of the operational efficiency of the decisions taken by the National Bank's management, excluding those related to the implementation of monetary and foreign exchange policy of the National Bank and to the state foreign exchange reserves management.

Additionally, five key areas (external audit mechanism, legal structure and autonomy, financial reporting, internal audit mechanism, system of internal controls) are assessed by the International Monetary Fund to help safeguard IMF disbursements and minimize the risk of inaccurate reporting of key data to the IMF.

Given the external auditors mandate in auditing financial statements in accordance with International Standards of Auditing and as well as of the Court of Accounts limited mandate to examination of the operational efficiency of the decisions taken by the National Bank's management, excluding those related to the implementation of monetary and foreign exchange policy of the NBM and to the state foreign exchange reserves management, there are no mechanisms for the ex-post reviews to infringe NBM's independence.

Prohibition of monetary financing of the public sector and privileged access of the public sector to financial institutions

22. What are the principles regulating the emergency liquidity assistance? To whom can the central bank provide the emergency liquidity assistance? Where is it regulated in the law?

The emergency liquidity assistance (ELA) is governed by the Law No. 548/1995 on the National Bank of Moldova44, Article 181 and Regulation on emergency liquidity assistance (ELA) approved by the Decision No. 343/2019 of the Executive Board of the National Bank of Moldova45 (effective from 30 June 2020). Accordingly, for financial stability purposes, ELA can be provided by the central bank, at its own discretion and conditions, to solvent and viable banks that are experiencing temporary liquidity issues. At the submission of the ELA request, the applicant bank must provide evidence that it has exhausted all other sources of

[43] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995
[44] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995
[45] https://www.bnm.md/en/content/regulation-emergency-liquidity-assistance-approved-decision-executive-board-national-bank

liquidity and that it has a credible funding plan, as assessed by the central bank, to resolve its liquidity issues. The collateral pool for ELA operations is wider than the one eligible for monetary policy operations and includes: securities issued by the Government and the central bank, deposits and other accounts with the central bank, including required reserves in foreign currency maintained in a fixed volume or deposits and other accounts with a bank accepted by the central bank, representing any kind of assets the central bank may purchase, sell and negotiate, credit claims classified in the safest category (standard) denominated in domestic and freely convertible currencies, except those against related parties of the applicant bank, corporate securities in domestic currency accepted for trading on the regulated market and/or within a multilateral trading facility, other financial assets as decided by the Executive Board of the central bank.

ELA can be provided for up to 3 months, and can be extended, in exceptional circumstances, up to one year from the date of provision, under the conditions established by the Executive Board of the central bank. ELA is provided at a penalty rate - currently 2 percentage points above the rate on the NBM's overnight credit facility.

The Executive Board of the central bank decides on the provision of liquidity assistance, taking into account the applicant bank's solvency, viability, and impact on the stability of the financial system, the assets available for collateral, as well as the impact of providing liquidity assistance on the implementation of the monetary policy of the National Bank.

23. Can the central bank provide solvency assistance to financial institutions?

No. The central bank cannot provide solvency assistance to financial institutions. This can be inferred from the Law No. 548/1995 on the National Bank of Moldova, articles 15, 18, 18^1, 18^2 and 42. Accordingly, the central bank lends to banks via its regular monetary policy operations and can provide emergency liquidity assistance to solvent and viable banks, to preserve financial stability. (for more details, please see the answer to Question 23). The central bank can also provide liquidity support to the Deposit Guarantee Fund in the Banking System backed by Government securities

24. Are there laws and regulations in force governing the access of government to financial institutions (asset allocation of banks, insurance companies, social funds, etc.)?

According to the Regulation on Placement, Transaction and Redemption of State Securities in Book-Entry Form, approved by the Decision of Executive Board of the NBM No.170/2018 and by the Order of the Ministry of Finance no.129/2018[46], banks which meet the selection criteria are accepted by the Ministry of Finance to

[46] Regulation on placement, transaction and redemption of state securities in book-entry form, approved by the Decision No. 170/2018 of the Executive Board of the National Bank of Moldova and the Order of the Minister of Finance No. 129/2018, available in Romanian at: https://www.bnm.md/en/content/regulament-cu-privire-la-plasarea-tranzactionarea-si-rascumpararea-valorilor-mobiliare-de

act as primary dealers and perform operations with domestic government securities on the government securities’ market in their own name and for their account or on behalf and for the account of their clients, individuals and/or legal entities, residents or non-residents.

The Law No. 202/2017 on the activity of banks[47] does not regulate differentiated requirements concerning access to the banking activity. Therefore, any individual or legal entity or group of such persons acting in concert can acquire a holding in the share capital of a bank.

In relation to government access to the banks, Art. 9 para. 3 and para 4 of the Law No. 202/2017 on the activity of banks, lays down that in case of a bridge bank, a bank’s share capital shall consist of state securities, including when the capital is to be increased and in the case of a systemic financial crisis, as defined by the national body responsible for the management of systemic financial crises, as well as in cases provided for by Articles 111 and 217 of the Law No. 232/2016 on the recovery and resolution of banks[48], shares may be acquired, in whole or in part, against the value of government securities issued for this purpose by the Government through the Ministry of Finance.

In order to determine the risk-weighted exposure amounts for the purposes of calculating banks' own funds requirements, according to the Regulation on the treatment of banks’ credit risk using standardized approach, approved by the Decision No.111/2018 of the Executive Board of the National Bank of Moldova[49], the exposures to the central government of the Republic of Moldova and the National Bank of Moldova, denominated and funded in Moldovan lei receive a 0% risk.

25. Please indicate the respective provisions in these documents, as well as any other elements, which might constitute privileged access of the government to financial institutions. In particular, are there legal provisions requiring or encouraging (through tax or other advantages) banks, insurance companies, pension funds, social security funds, investor compensation fund or other financial institutions to invest (e.g. a certain portion of their assets) in domestic government securities or other government liabilities?

According to the Regulation on Placement, Transaction and Redemption of State Securities in Book-Entry Form and based on the Agreement on the duties of the primary dealer on the state securities market, concluded between the Ministry of Finance (the issuer of government securities) and banks-primary dealers, the Ministry of Finance is entitled to monitor and assess the activity of primary dealers and compliance with the criteria set out in the Regulation. At the same time, according to item 21 para 3) of the Regulation and based on the above-mentioned

[47] https://www.bnm.md/en/content/law-banks-activity-no-202-06-october-2017
[48] https://www.bnm.md/en/content/law-banks-recovery-and-resolution-no-232-03102016
[49] https://www.bnm.md/en/content/regulation-treatment-banks-credit-risk-using-standardised-approach

agreement, the primary dealers are required to purchase, in own name and account, a minimum of 3% of the total amount allocated by the Ministry of Finance, related to the government securities issues in the assessed period (on a quarterly/annual base).

The Regulation on the treatment of banks' credit risk using standardized approach, approved by the Decision No.111/2018 of the Executive Board of the NBM[50] (item 31 and 32) provides that the exposures to the central government of the Republic of Moldova and the NBM, denominated and funded in Moldovan lei and the exposures to the NBM in the form of required reserves shall be assigned a risk weight of 0%.

Monetary and exchange rate policy

26. What are the main tasks and objectives of the central bank? Who formulates the monetary policy?

Under Article 4, of the Law No. 548/1995 on the National Bank of Moldova[51], the primary objective of the National Bank shall be to ensure and maintain the price stability.

Without prejudice to the primary objective, the National Bank of Moldova (NBM) shall aim at ensuring the stability and viability of the banking system and shall support the general economic policy of the state.

Under Article 5, (1) of the NBM Law, the central bank has the following basic tasks:

- establish and implement the state monetary and foreign exchange policy;
- act as banker and agent of the state;
- conduct economic and monetary analyses and, based on them, submit proposals to the Government, to publish the results of the analyses;
- license, regulate and supervise, on an individual basis and, as the case may be, on a consolidated basis, the activity of banks in the Republic of Moldova and branches of banks in other states;
- provide credits to banks including liquidity assistance in emergency situations;
- constitute, license, operate, regulate and supervise the financial market infrastructure, under the conditions established by law, and promote their stable and efficient operation;
- act as the sole issuer of the national currency;
- establish the exchange rate regime of the national currency;
- hold and manage foreign exchange reserves of the state;

[50] https://www.bnm.md/en/content/regulation-treatment-banks-credit-risk-using-standardised-approach
[51] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995

- undertake, in the name of the Republic of Moldova, obligations and performs transactions resulting from the participation of the Republic of Moldova in the activity of international public institutions in the banking, credit and monetary areas pursuant to conditions of international agreements;
- elaborate the balance of payments, international investment position and the statistics of the external debt of the Republic of Moldova;
- perform foreign exchange regulation on the territory of the Republic of Moldova;
- license, regulate and supervise the activity of providing payment services and the issuance of electronic currency;
- act as a resolution authority for the banks in accordance with the Law on banks' recovery and resolution.

Under Article 24 of the Law on the NBM, the Governor of the NBM shall be responsible for the formulation of monetary and foreign exchange policy initiatives in order to present them to the Executive Board and for their execution. In the absence of the Governor or if he/she is unable to discharge his/her duties, the Governor shall be replaced by the First Deputy Governor, or, in the absence of the First Deputy Governor, by one of the Deputy Governors who is empowered according to the internal regulations of the NBM. The Governor may delegate some of his/her powers to the members of the Executive Board and to the Heads of the NBM subdivisions.

27. Is the maintenance of price stability the primary objective of the central bank? Without prejudice to that objective, does the central bank support the general economic policy objectives of the government?

Under Article 4, of the Law No. 548/1995 on the National Bank of Moldova[52], the primary objective of the National Bank shall be to ensure and maintain the price stability.

Without prejudice to the primary objective, the National Bank shall aim at ensuring the stability and viability of the banking system and shall support the general economic policy of the state.

28. Is the central bank act in accordance with the principle of an open market economy with free competition, and acting in compliance with the principles set out in Article 119 of the Treaty?

According to art. 4 of the Law No. 548/1995 on the National Bank of Moldova[53], the primary objective of the National Bank shall be to ensure and maintain the price stability. Without

[52] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995
[53] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995

prejudice to the primary objective, the National Bank shall aim at ensuring the stability and viability of the banking system and shall support the general economic policy of the state.

29. Which is the official currency unit used for conducting monetary policy? Where is it referred to in the law?

The Constitution of the Republic of Moldova, in Art. 130 para (2), states that the national currency of the Republic of Moldova is the Moldovan Leu[54]. According to Article 56, (1) of the Law No. 548/1995 on the National Bank of Moldova[55], and Art. 1 of the Law on money No.1232/1992[56], the monetary unit of the Republic of Moldova is the Moldovan leu (MDL). One MDL is divided into one hundred bani. The MDL is the legal tender within the territory of the Republic of Moldova.

30. How is monetary policy carried out (what are the specific reserve requirements, refinancing facilities, open market operations, major central bank interest rates, other monetary instruments)? What have been the main recent developments in the use of monetary instruments? To what extent have direct instruments of monetary control (such as credit ceilings, interest rate controls etc.) been replaced by indirect, market-based instruments (such as open market operations, financing facilities etc.)? Is the framework for monetary policy sufficient to allow policy makers to conduct successful stabilization policies?

According to the Law No. 548/1995 on the National Bank of Moldova[57], the primary objective of the National Bank shall be to ensure and maintain the price stability.

One of the basic tasks of the National Bank of Moldova (NBM) is establishing and implementing the state monetary and foreign exchange policy.

The Medium-term monetary policy strategy of the NBM, approved by the Decision No. 303 of 27 December 2012[58] contains medium-term strategic activity directions of the monetary authority in the Republic of Moldova, oriented towards achieving the fundamental objective of ensuring and maintaining price stability. To ensure and maintain price stability, the central bank implements **the direct inflation targeting regime**.

[54] Constitution of the Republic of Moldova, available in English at: https://presedinte.md/app/webroot/Constitutia_RM/Constitutia_RM_EN.pdf
[55] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995
[56] Law on money No.1232/1992, available in Romanian at: https://www.legis.md/cautare/getResults?doc_id=68170&lang=ro
[57] https://www.bnm.md/en/content/law-national-bank-moldova-no548-xiii-july-21-1995
[58] https://www.bnm.md/en/content/medium-term-monetary-policy-strategy-0

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

The NBM uses the open market operations as the main monetary policy instrument, the purpose of which is to balance the demand and supply on the monetary market and to allow the NBM to influence the level of the short-run interest rates on the interbank monetary market. The NBM announces and publishes the schedule and conditions of the open market operations for the following year of administration in advance, in November.

At the same time, the NBM also uses complementary monetary policy instruments, such as: **standing facilities, required reserves ratio, and interventions on the foreign exchange market**.

During 2020, the NBM undertook accommodative monetary policy measures, adopting a series of incentive measures aimed at supporting domestic aggregate demand, the lending process and supporting the economy as a whole. In this context, NBM decreased the base rate applied to the main short-term monetary policy operations in March 2020 from 5.5% in December 2019 to 2.65% (historic low) in November 2020. However, during July 2021 – May 2022, the base rate was increased from 2.65% to 15.50%.

In addition, the NBM narrowed the corridor between overnight lending and deposits from (plus/min) 3% to (plus/min) 2.5%, and to (plus/min) 2% during 2020 and 2021.

As a precautionary measure to prevent liquidity risk and strengthen the stability of the banking sector in the context of the pandemic disruptions, as well as to increase the efficiency of monetary impulses transmission in the real sector of the economy, the NBM decreased gradually the required reserves ratio of funds attracted in MDL and nonconvertible currency from 42.5% in December 2019 to 32% in August 2020 and to 26% in April 2021, and consequently increased it to 28% in February 2022, and up to 30% in May 2022. The reduction of the required reserves ratio was intended to contribute to the increasing of liquidity available for licensed banks, support the revitalization of lending in the context of decreasing the related costs, thus boosting the aggregate demand. The last decision regarding the increasing of required reserves ratio attracted in Moldovan lei and in non-convertible currency to 28% in February 2022, aimed at moderating the growth of credit at the expense of increasing associated costs, stimulating savings at the expense of immediate consumption and reducing the pressure on the depreciation of the national currency due to the increasing current account and trade balance deficit, along with mitigating the dollarization effect of deposits. In addition, the NBM increased the reserve requirement norm in freely convertible currency up to 30% in 2020, and to 33% in May 2022. The policy aimed at strengthening the banking sector in the context of reducing external environmental risks and stimulating financial intermediation in the national currency.

The NBM continuously analyses and models the monetary policy transmission mechanism. The interest rate has the ultimate role in the guidance of the monetary, foreign exchange and credit markets.

The impulses generated by the monetary policy instruments towards inflation are transmitted through complex cause-and-effect chains representing the responses of the enterprises and households to the monetary policy measures. This leads to an extension of the monetary policy effects on the economy. The main transmission channels of the monetary policy are: the interest rate channel, the credit channel, the exchange rate channel, the inflationary expectations channel.

In this context, the framework for monetary policy is sufficient to allow policy makers to achieve the fundamental objective of "ensuring and maintaining price stability".

Open market operations of the central bank

Depending on the objectives, regularity and procedures, open market operations of the NBM are divided into the following categories:

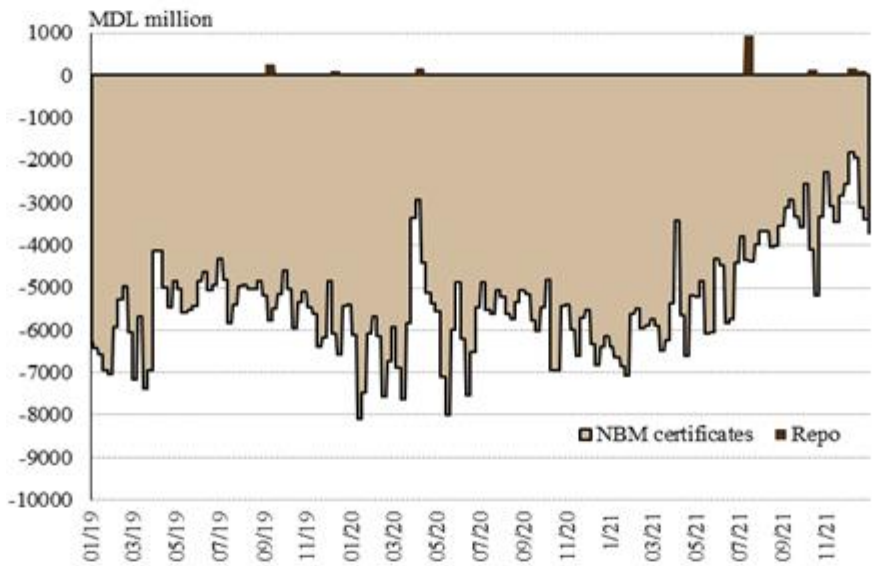
- main operations – regular refinancing operations or, where appropriate, liquidity-absorbing operations, which play a pivotal role in achieving open market operations objectives of the NBM, conducted weekly, based on standard tenders and with a maturity usually of one or two weeks. All eligible participants may submit bids to tender for the main operations. In order to send monetary policy signals to the market, NBM applies the base rate to these operations;
- fine-tuning operations – executed on an ad-hoc basis with the aim of managing the liquidity situation in the market and steering interest rates, to smooth the effects on interest rates caused by unexpected liquidity fluctuations in the market. Fine-tuning operations may be conducted on the last days of a required reserve application period to counter liquidity imbalances, accumulated since the liquidity-provision/absorption of the last main operation.
- Fine-tuning operations may take the form of liquidity-providing or liquidity-absorbing operations, their frequency and maturity are not standardized. Fine-tuning operations are normally executed through quick tenders or bilateral procedures;
- structural operations – operations conducted with all eligible participants through standard tenders and bilateral procedures, when it is necessary to adjust the structural position of the NBM vis-à-vis the financial sector (regularly or occasionally). The frequency of these operations may be regular or irregular, and their maturity standardized or non-standardized.

In structural operations, the NBM may carry out longer-term refinancing operations. Generally, the NBM does not use these operations to transmit signals to the market and therefore accepts the proposed rates.

Longer-term refinancing operations are usually executed in the form of variable rate tender. Periodically, the NBM may indicate the refinancing volume to be allotted in the forthcoming tenders. In exceptional circumstances, the NBM may also execute longer-term refinancing operations through fixed rate tenders.

The main open market operations available to the NBM are: REPO operations, issuance of NBM's certificates, deposit-taking operations, outright sales/purchases of state securities.

With the persistence of structural liquidity surplus in the banking system of Republic of Moldova, excess liquidity is sterilized via weekly tenders of NBM's certificates with a 14-day maturity, at the base rate (please see the chart below).



At the same time, to improve credit conditions by banks to the national economy, the NBM announces weekly liquidity provision operations, which are carried out through fixed rate REPO operations with the term of 14 days.

Open market operations are carried out through the single trading platform - Bloomberg Auction System. Settlement of open market operations is conducted through the Automated Interbank Payment System and Central Depository system, on a T+1 basis, using the Delivery versus payment model. Only banks fulfilling the prescribed conditions may be participants in open market operations with the NBM.

Standing facilities

NBM offers to domestic banks two types of standing facilities: overnight deposit facility and overnight credit facility.

Standing facilities are granted by the NBM to banks for the purpose of absorbing and providing overnight liquidity and narrowing the short-term interest rates fluctuations on the interbank money market through the corridor set by the NBM on interest rates related to deposit and credit facility established by the Executive Board of the NBM.

Banks may resort, at their own discretion, to standing facilities offered by the NBM:

Deposit facility - allows banks to place an overnight deposit with the NBM, at a pre-established interest rate;

Credit facility - allows banks to receive an overnight credit from the NBM, to cover the overdraft at the end of the operational day, as well as to cover the liquidity gap, guaranteed with securities pledged with the NBM, at a pre-established interest rate.

Utilization of credit and deposit facilities is automated.

Required reserves

The required reserves are a complementary monetary policy instrument, aiming to restrict excess liquidity and to mitigate its impact on interbank interest rates. The domestic banks are required to hold reserves in national currency, Euros and US Dollars. The reserve base includes banks' liabilities, except those against the central bank, other domestic banks, provisions, and banks' own funds. To encourage banks to attract medium and long-term funds, a 0% required reserve ratio is applied to liabilities with a contractual maturity exceeding 2 years that fall under certain eligibility criteria. The observance (reserve computation) and maintenance periods last for a month, from the 16th day of the current month to the 15th day of the next month. A full averaging reserve maintenance regime applies to required reserves in national currency, whereas required reserves in EUR and USD are maintained using partial averaging (5% of the reserve base). The NBM remunerates the required reserves in national currency at the interest rate applied to NBM's overnight deposit facility, whereas the required reserves in EUR and USD - at a fixed interest rate, of 0.01%.

The recent revisions to reserve requirements have aimed to improve the framework's efficiency by bridging the substantial gap between national and foreign currency reserve ratios, expanding the flexibility of foreign currency reserve management, and optimizing reserve remuneration.

31. Which factors hinder the conduct of monetary policy (e.g. elasticity of loans and domestic expenditure to interest rates, competition in the banking sector, changes in the structure of financial markets)?

The NBM's efforts are focused continuously on improving the monetary policy transmission mechanism, which is both a necessity and a challenge. However, there are several factors that hinder the conduct of monetary policy are:

- capital mobility (low international financial integration),
- liquidity (excess liquidity as legacy of the 2014-15 banking crisis and frequent FX purchases),
- large share of mostly imported food and energy in the CPI basket,
- exchange rate flexibility (not enough exchange rate flexibility, underdeveloped FX interbank market),
- interbank market (low competition in the banking sector, non-active interbank market),
- shallow financial market (underdeveloped secondary market of Government securities, short maturity of T-bills),
- non-bank financial sector (macro significant share, under-regulated, regulatory arbitrage, external funding costs),
- lending opportunities (informational asymmetries, poor quality),
- dollarization/euroization and remittances (loan and deposit dollarization/euroization pose financial risk, remittances do not react to monetary policy),
- weak elasticity of loans and domestic expenditure to interest rates,
- lack of sufficient statistical data due to underfinanced National Bureau of Statistics of the Republic of Moldova,
- low level of the economic and financial education in the Republic of Moldova,
- the high proportion of the unobserved economy.

32. Describe the major characteristics and objectives of the exchange rate regime and policy: anchor, choice of the central rates, width of the fluctuation bands, etc.

Given inflation targeting as a monetary policy framework, the central bank implements a managed floating exchange rate regime, without a pre-established target for the exchange rate of the MDL. The NBM's interventions in the domestic foreign exchange market are a complementary monetary policy tool. According to the NBM's Medium-term monetary policy strategy, approved by the Decision No. 303 of 27 December 2012[59], the central bank may intervene to smooth out

[59] https://www.bnm.md/en/content/medium-term-monetary-policy-strategy-0

excessive exchange rate volatility, to prevent speculative operations and to strengthen international reserves, if these interventions do not hamper the achievement of the inflation target.

33. How is the exchange rate policy implemented? What are its instruments (interventions, monetary policy, fiscal policy, capital control)? What is the intervention policy - if any - (currencies used, financing, and sterilisation)?

The official exchange rate of the MDL is determined according to the Regulation on the official exchange rate of MDL against foreign currencies, approved by the Decision No. 3/2009 of the Council of Administration of the National Bank of Moldova [60]. The NBM intervenes (buy/sell) in the domestic foreign exchange interbank market to smooth out sharp exchange rate fluctuations of the MDL against the US dollar. Interventions are not aimed at changing the exchange rate path driven by its fundamentals. The NBM has an official internal regulation on intervention strategies in which all the procedures, trigger events and decision-making process are clearly specified. The NBM is undertaking both spot and swap interventions.

34. Are any reforms of the exchange rate policy envisaged? If yes, why? What part does the prospect of EU accession play in this respect?

In line with the current practice, the NBM determines the exchange rate of the MDL against the current reference/intervention currency – US dollar, based on the US dollar purchase/sale transactions against MDL in the domestic foreign exchange spot market (overall market: bank-client plus interbank). Consequently, the exchange rate of the MDL against the euro and other foreign currencies is calculated by applying the cross-rates of the US Dollar against the foreign currency observed on international markets at a specific hour (2:00 PM local time). Following the Association Agreement between Moldova and the EU, the central bank is periodically assessing the opportunity of switching to euro as a reference/intervention currency. Although the importance of the euro has been significantly rising in Moldova’s trade, remittances, donor support and other financial flows, the US dollar continues to play a key role in cost and internal prices formation at consumer level, hence the exchange rate of the MDL against the US dollar is perceived as having a stronger pass-through to inflation in Moldova. Accordingly, the central bank does not plan, in the nearest future, any reforms to its exchange rate policy. Over the medium to longer term, however, with the progress in EU-Moldova relations, the shift from US dollar to euro as a reference/intervention currency, as an initial step, is inevitable.

[60] https://www.bnm.md/en/content/regulation-setting-official-exchange-rate-moldovan-leu-against-foreign-currencies-dca-nbm

B. Acquis alignment

35. What are the necessary reforms in legislation (central bank law, laws on banking sector, insurance companies, pension funds, social security funds, compensation funds, interest rates, exchange rate law etc.) with a view to EU membership requirements? Which reforms are already underway?

With reference to the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and the Republic of Moldova, of the other part (singed in 2014), the National Bank of Moldova is responsible for the transposition and implementation of the EU CRD IV package (Regulation No. 575/2013 and Directive No. 2013/36/EU) that is equivalent to Basel III international requirements. Within the Twinning project to strengthen its capacity in the field of banking regulation and supervision in the context of EU requirements the new banking law has been elaborated – the Law No. 202/2017 on the activity of banks[61], in force since 1 January 2018.

Subsequently, in order to enforce the new banking law, secondary normative acts have been adopted gradually during 2018-2022, that transpose the provisions of the EU framework (CRD IV package) on own funds and capital requirements, capital buffers, credit / market / operational / settlement risks, counterparty credit risk, credit valuation adjustment (CVA), large exposures, management framework, requirements to the proposed acquirer, requirements for members of the bank's management body and key function holders, supervision on a consolidated basis, disclosure requirements, liquidity coverage ratio (LCR), outsourcing, leverage, external audit, licensing, common reporting framework COREP.

Following to the commitments to transpose the EU Directive 2002/87/EC (on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate) the Law No. 250/2017 on supplementary supervision of banks, insurers/reinsurers and investment firms in a financial conglomerate[62] has been approved, as well as the Regulation on technical standards for the regulation of supplementary supervision of financial conglomerates, approved by the Decision No. 31/2020 of the Executive Board of the NBM[63].

In order to ensure the free movement of capital (laid down in Articles 63 to 66 of the Treaty on the Functioning of the European Union), the principle underlying the European single market is to liberalize foreign exchange capital operations. In this regard, in 2019 the NBM initiated the draft amendment to the Law No. 62/2008 on foreign exchange regulation[64] in order to liberalize some capital operations, but

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[61] https://www.bnm.md/en/content/law-banks-activity-no-202-06-october-2017
[62] https://www.bnm.md/en/content/law-supplementary-supervision-banks-insurersreinsurers-and-investment-firms-financial
[63] https://www.bnm.md/ro/content/hotarare-pentru-aprobarea-regulamentului-cu-privire-la-standardele-tehnice-de-reglementare
[64] https://www.bnm.md/en/content/law-foreign-exchange-regulation-no-62-xvi-21-march-2008

taking into account the impact of the pandemic crisis on the economic situation, this draft was suspended in 2020.

Regarding the transposition into national legislation of the Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market: the draft law that transposes this directive was approved in the first reading by the Parliament of the Republic of Moldova on 31 March 2022.

On April 7, 2022 the Parliament of Republic of Moldova adopted in the final reading the Law on the business of Insurance and Reinsurance which transposes partially (**Pillar II and III**) the provisions of **Directive 2009/138/EC** of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). This Law shall enter into force on **January 1, 2023.**

The Supervisory Authority, within 6 months from the date of entry into force of the Law, shall draw up and adopt its normative acts in accordance with the Law.

In order to fully transpose Directive 2009/138 / EC (Solvency II) into primary legislation, the following additions / adjustments are required (which generally derive from the status of the Republic of Moldova as an EU Member State):

- regulation of SCR / MCR capital requirements (calculation methodology, PILLAR I) - art. 37, 100 - 131 Solvency Directive II
- regulation of the principle of authorization, including the validity of the authorization throughout the Community, and of the condition of authorization regarding the representatives in charge of claims solving - art. 15 and 18 Solvency II Directive;
- regulation of the single activity object and of the provisions regarding the refusal of the authorization - art. 18 and 25 Solvency II Directive;
- regulation of the content of the business plan and the authorization conditions regarding SCR / MCR - art. 18 and 23 Solvency II Directive;
- regulation of the provisions regarding the freedom to provide services and the right of establishment - art. 145 - 161 Solvency II Directive;
- the regulation, regarding the branches of the insurance or reinsurance companies from third countries, of the provisions regarding the authorization requirement regarding SCR / MCR and the correlation of the content of the business plan and regarding the portfolio transfer - art. art. 162 (2), 163-168 and 170 Solvency II Directive;
- updating the values of the absolute thresholds of MCR - art. 129 Solvency II Directive and art. 253 Delegated Regulation (EU) 2015/35;
- regulation of the provisions regarding own funds (purpose - coverage of SCR / MCR with eligible own funds, determination, classification, eligibility and their eligibility limits) - art. 87 - 98, art. 308b para. (9) and (10) the Solvency II Directive

- regulation of the provisions regarding the technical reserves (calculation methodology; segmentation of the insurance and reinsurance obligations on the lines of activity) - art. 76 - 85 Solvency Directive II
- regulation of the provisions regarding the prudent person principle, freedom of investment and location of assets, simultaneously with the elimination from the primary legislation of the provisions regarding the coverage of technical reserves and the minimum capital requirement with certain categories of assets - art. 132 -134 Solvency Directive II
- regulation of the provisions allowing the contractual freedom to assign risks in reinsurance (including the elimination from the primary legislation of the requirements regarding own withholding) - art. 32, 101 (5), 134, 172 (3) and (6), 173 and 210 Solvency II Directive
- regulation of the provisions that fully transpose the requirements related to the report on solvency and financial situation (correlated with the introduction of PILLAR I, elimination of the requirement for certification of the report by the actuary) - art. 51 and 53–56 Solvency Directive II
- regulation of the provisions regarding the companies in difficulty for the full transposition of the provisions of art. 136 - 144 of the Solvency II directive, correlated with the introduction of Pillar I.
- regulation of the provisions regarding the liquidation procedures for the full transposition of art. 273 - 296 of the Solvency II Directive
- the regulation of the provisions that allow the supervisory authority and the insurance companies to take into account the EC acts regarding the recognition of the equivalence of the solvency regimes of the third states - art. 172, 227 and 260 Solvency II Directive,

On April 21, 2022 the Parliament of RM adopted the Law on the compulsory insurance against civil liability for the damage caused by vehicles. This Law shall enter into force **on April 1, 2023** and transposes partially the provisions of Directive **2009/103/EC** of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability and the provisions of Article 21(2) and 181(3) of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

The Supervisory Authority, within 6 months from the date of entry into force of the Law, shall draw up and adopt its normative acts in accordance with the Law.

In order to fully transpose Directive 2009/103/EC, as amended and supplemented by Directive 2021/2118 / EC (Automotive Directive) into primary legislation, the following additions / adjustments (generally derived from the statute of the Republic of Moldova) are required. EU Member State):

- the gradual regulation of the minimum amounts ensured so that at the moment of accession they comply with the levels provided by the directive - art. 9 Car Directive

- the gradual implementation of the tariff liberalization, by eliminating the provisions regarding the method of calculating the MTPL tariffs;
- elimination of the provisions on the obligation to notify MTPL tariffs and practice only after their approval by the supervisory authority - the current provisions do not comply with the provisions of the Solvency II Directive (Articles 21 and 181)
- regulation of the provisions regarding the controls regarding the insurance for full transposition - art. 4 Car Directive
- regulation of the definition of “vehicle” for which there is an insurance obligation - art. 1 Car Directive
- regulation of the provisions regarding the claims compensation in case of insolvency and implementation of a mechanism for protection of the injured persons in case of insolvency of an MTPL insurer (guarantee scheme) - art. 10th, 25th and 26th Car Directive
- the regulation of the provisions on the contractual exclusion clause, the single premium and vehicles dispatched from one Member State to another, as well as the regulation of the situations to which the Directive makes express reference in terms of covering damage caused by vehicle combinations - art. 13 - 15th Car Directive
- the regulation of the provisions regarding the visitors and the representative in charge of solving the compensation claims - art. 20 and 21 of the Car Directive.

The sector of voluntary pension funds plays an important role in stimulating the economic growth, being used as an important tool for citizens at the time of retirement to obtain additional payments to the pensions provided by the state.

Following the initiated regulatory reform aimed to ensure the harmonization of national legislation with EU acquis and promote stable development of this sector, the new Law on Voluntary Pension Funds (No. 198/2020) was developed and adopted, which transposes the provisions of the EU Directive 2016/2341 on the activities and supervision of institutions for occupational retirement provision (IORP).

In order to ensure the implementation of the above-mentioned law, it is required to develop and enforce the secondary normative acts and 2 related laws: the Law on the organization and functioning of the payment system of voluntary pensions and the Law on the contributions guaranteeing fund in the voluntary pension system.