



## REPUBLIC OF MOLDOVA

### SELECTED ISSUES

March 2020

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March, 2020

Approved By  
**Philip Gerson (EUR)**  
and **Ashvin Ahuja**  
**(SPR)**

Prepared by Sílvia Domit<sup>1</sup>

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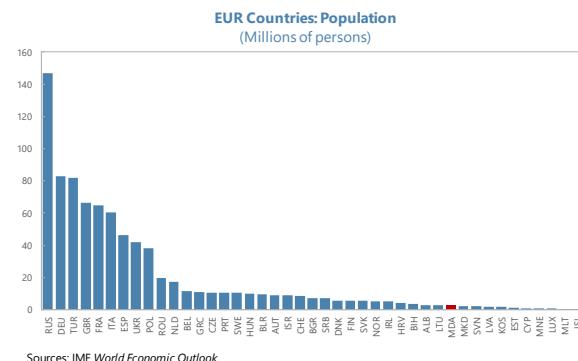
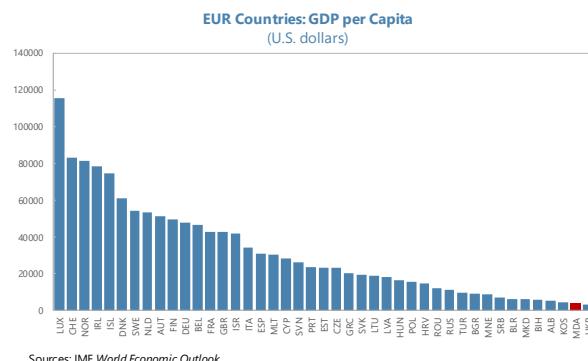
<sup>1</sup> I would like to thank Samuel Romero Martinez for excellent research assistance.

# GOVERNANCE ASSESSMENT

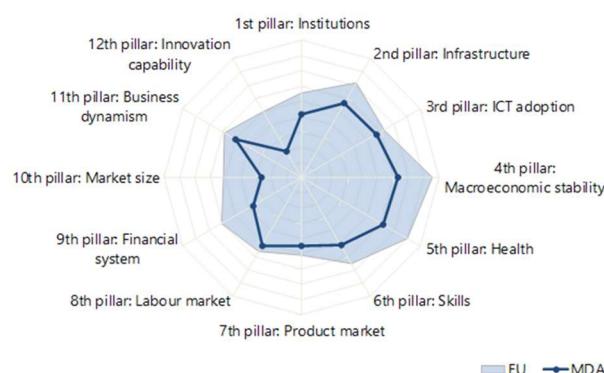
## A. Introduction

### 1. Moldova is among the smallest, poorest, and least competitive European countries.

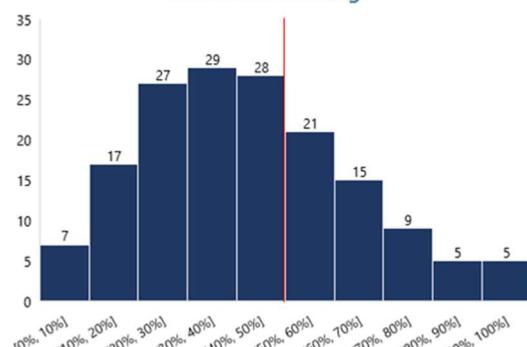
Despite averaging around 4 percent in recent decades, output growth has been insufficient to significantly raise living standards, with GDP per capita remaining among the lowest in Europe. Moldova's population is steadily declining, as negative demographic trends are compounded by discouraged workers who seek better prospects abroad. Corruption and policy and political instability are often cited as the most problematic factors for doing business.<sup>2</sup> Moldova is behind Europe in all scored pillars of the Global Competitiveness Index. It also ranks worse than most countries in several categories, with the majority of its individual scores below the 50<sup>th</sup> percentile.<sup>3</sup>



### Global Competitiveness Index, 2019



### Moldova: Histogram of Global Competitiveness Individual Rankings



<sup>2</sup> World Bank, Doing Business reports.

<sup>3</sup> World Economic Forum, 2019.

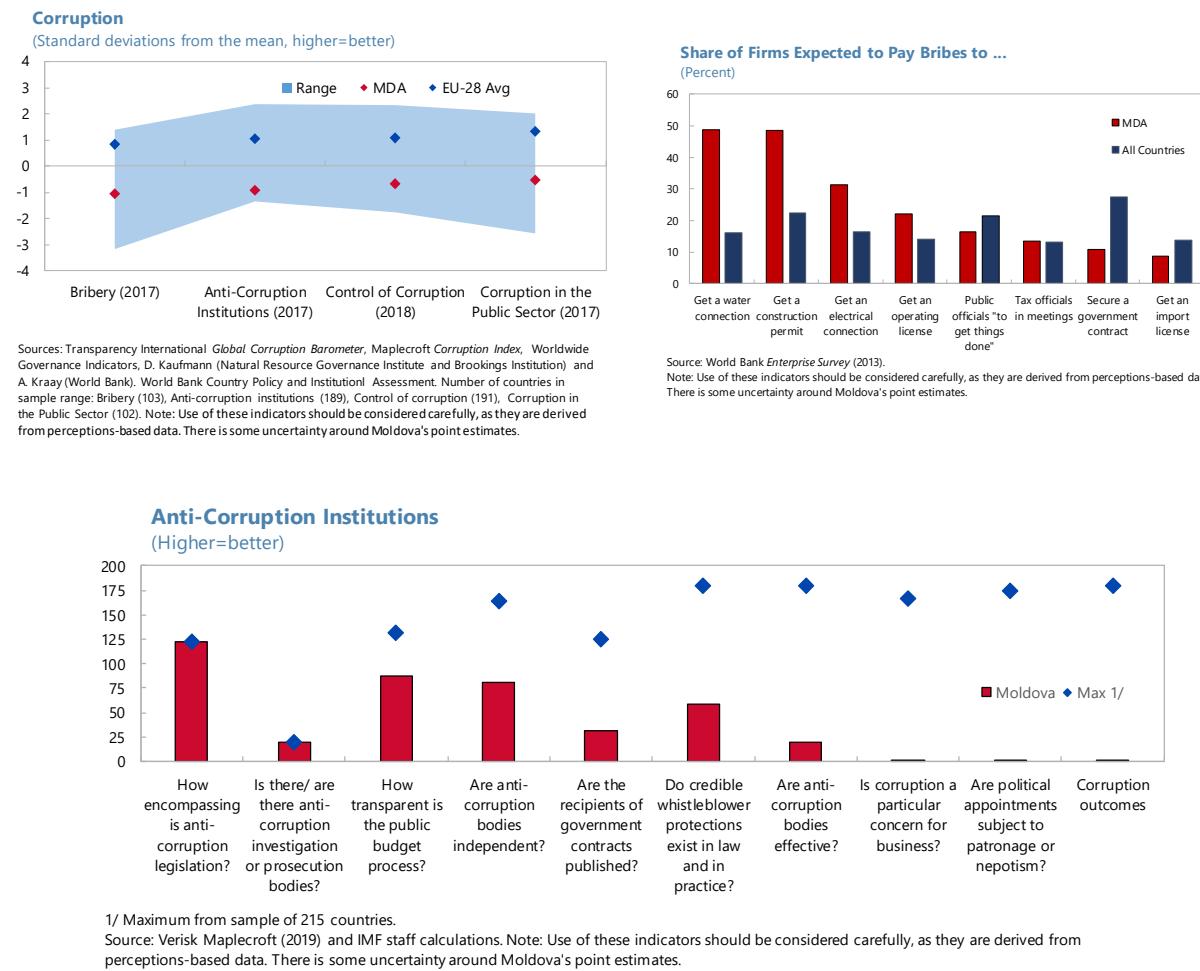
**2. Prominent examples suggest governance and institutional vulnerabilities are severe and macro-critical.** A recent prominent example is the 2014 banking fraud, when money-laundering operations facilitated the stealing of around 12 percent of GDP from the country's largest banks, leading to a recession and subsequent IMF-supported program. In 2019, political disagreement over judicial reform culminated in the collapse of the ruling coalition and the dismissal of government. These, and other examples, suggest that addressing governance and institutional vulnerabilities is a priority for Moldova.

**3. This paper provides a systematic assessment of Moldova's governance and institutional frameworks.** It follows guidelines approved by the IMF executive board, which were developed to deliver systematic and evenhanded analysis on macroeconomically critical governance and institutional vulnerabilities (IMF 2018). This paper focuses on 7 key areas for Fund engagement: corruption, rule of law, regulatory framework, fiscal governance, financial sector oversight, anti-money laundering/combating the financing of terrorism (AML/CFT), and central bank governance. The analysis is based on internationally comparable data, diagnosis from IMF technical assistance reports, as well as other expert assessments. The next sections cover these 7 areas in detail.

## B. Corruption

**4. The IMF governance framework focuses on the elements of corruption associated with the abuse of public office for private gain.** This definition includes activities such as illicit payments or favors and how they are distributed, as well as individual projects and how they are awarded. Given the inherent difficulty in directly measuring the extent of corruption, IMF work has focused on various proxy indicators that capture public perception and experience with corruption, as well as expert analysis on the strength of a country's anti-corruption institutional framework.

**5. Corruption in Moldova is perceived to be systemic.** Moldova fares worse than many countries across a range of perception indicators on both grand and petty corruption. These suggest that, while anti-corruption institutions and legislation are largely in place, enforcement is poor, linked to a relatively low degree of independence of anti-corruption bodies, political appointments, and weak whistleblower protection. Corruption in the public sector is perceived to be high, with insufficient transparency of the public budget and procurement processes. The share of firms which expect to pay bribes is significantly higher than the world average. According to the World Bank Enterprise Survey (2013), this might be particularly linked to infrastructure needs—such as construction permits or water and electricity connection.



## C. Rule of Law

**6. Strong rule of law is critical for sustainable growth.** Whereas rule of law is a wide-ranging concept, this assessment focuses on those aspects that are most critical to economic performance, notably the protection of investors and property and contract rights. Vulnerabilities in these areas can hinder growth in several ways, including through weighing on credit supply or by undermining the country's ability to restructure debt and regain market access or concessional financing following a crisis. Rule of law vulnerabilities can also create opportunities and incentives for corruption (e.g., by reinforcing perceptions that corrupt acts can be committed with impunity or allowing for legal protections to be disregarded). Effective enforcement of investor protection and economic rights typically requires an independent and qualified judiciary.

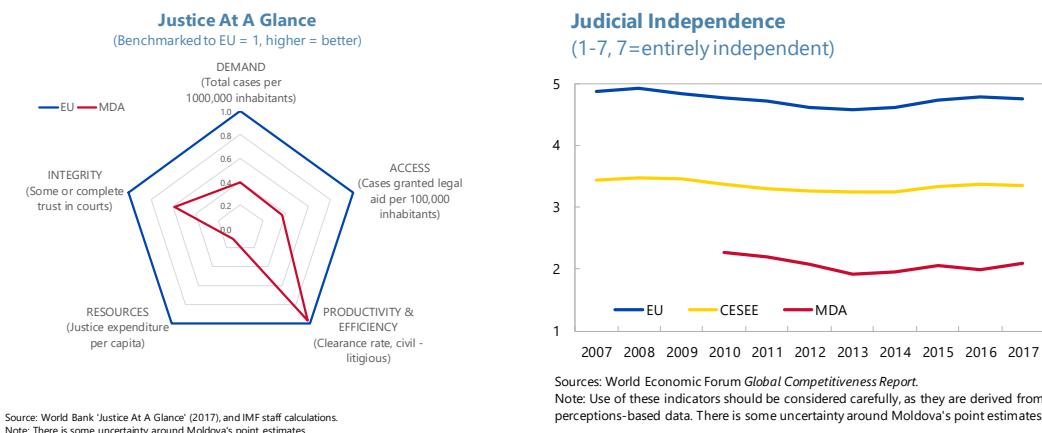
**7. This assessment is based on a range of rule-of-law indicators.** The World Bank's property rights indicator assesses the extent to which private economic activity is facilitated by an effective legal system and rule-based governance structure in which property and contract rights are reliably respected and enforced.<sup>4</sup> The World Bank Doing Business indicator on insolvency resolution

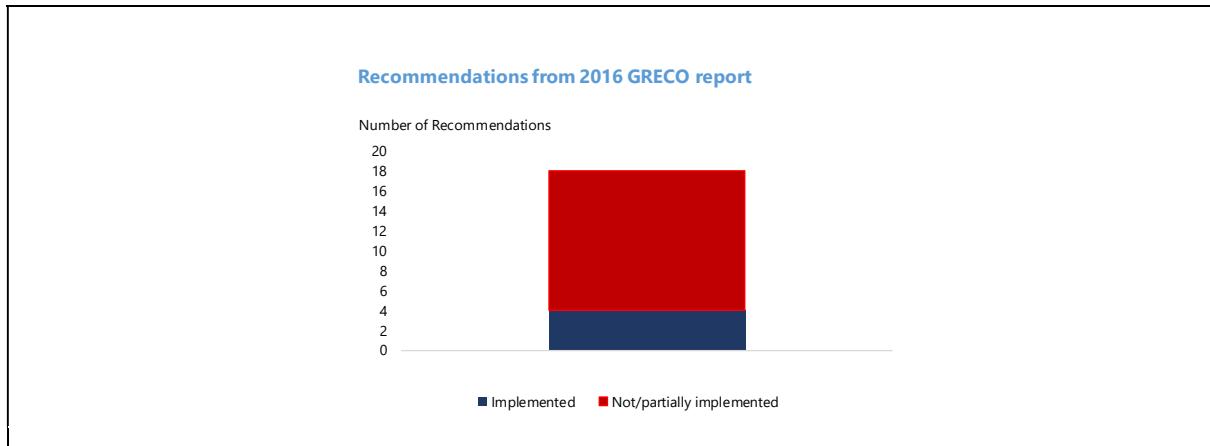
<sup>4</sup> <https://datacatalog.worldbank.org/dataset/country-policy-and-institutional-assessment>

measures the time, cost, and outcome of insolvency proceedings involving domestic legal entities, while the contract enforcement indicator measures the time and cost for resolving a commercial dispute through a local first-instance court. Investor protection is assessed based on the World Economic Forum global competitiveness index for protection of minority shareholders' interests and the World Justice Project expropriation index, which measures whether the government expropriates with lawful process and adequate compensation. Judicial independence is measured by the respective World Economic Forum global competitiveness index, while the World Bank 'Justice at a Glance' database provides information about judicial outcomes. Finally, the World Justice Project rule of law index provides a broader assessment of other important rule of law aspects.

## **8. These indicators suggest that rule of law is perceived to be weak in Moldova. Notably:**

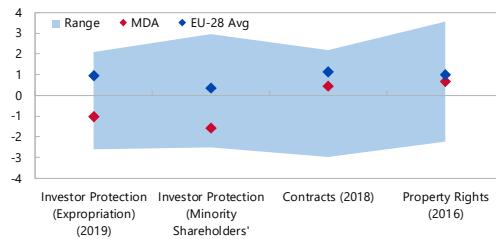
- *The judiciary* is perceived as not independent and significantly less so than in neighboring countries, the EU or most of the world. It is also under-resourced, with limited per capita access to justice and little reported trust in courts. Moldovans believe the judiciary is among the most corrupt institutions in the country (CISR 2018).
- The 2016 assessment by the Council of Europe's Group of States against Corruption (GRECO) identified issues related to the efficiency, integrity, and independence of Moldova's judiciary. GRECO assessed that public trust in the judiciary was lacking due to poor accountability and insufficient insulation from undue influence. It also noted that awareness of ethics and integrity rules among judges needed to be strengthened. In its 2018 compliance report, GRECO acknowledged that whereas some progress had been made, few of the 2016 recommendations had been fully implemented.
- *Investor protection* appears particularly weak, with Moldova's scores significantly below the average for over 125 countries and significantly below the EU in both the expropriation and protection of minority shareholders indices.





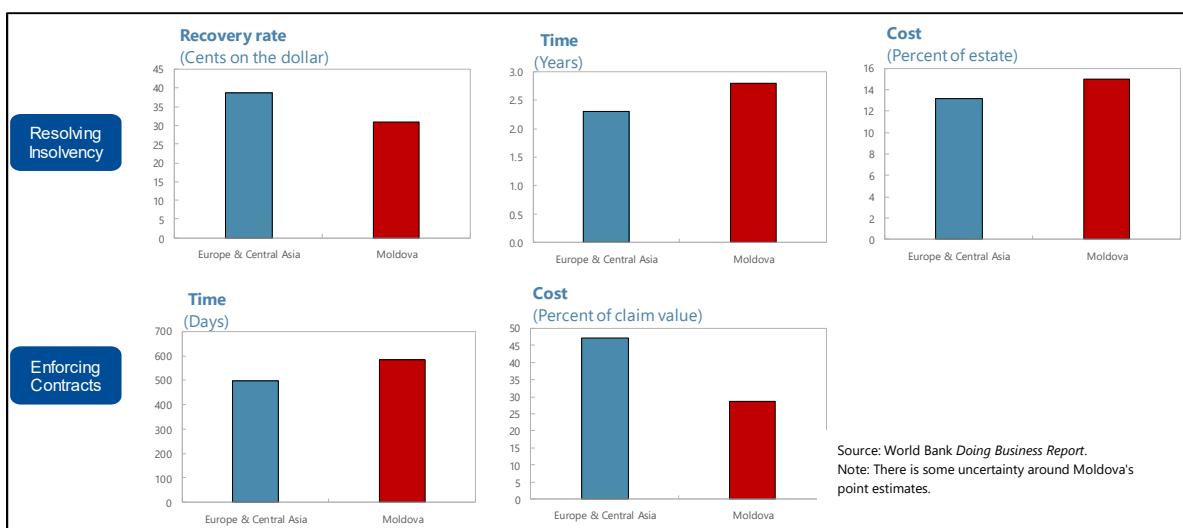
- *Contract and property rights* indicators suggest Moldova's performance is above average, but still below EU standards. Resolving insolvency recovers less, takes longer and costs more than in the Europe and Central Asia, while enforcing contracts costs less, but takes longer. The property rights indicator likely overstates *de facto* protection. It captures the existing legal framework, various dispute resolution mechanisms, as well as crime and violence. But whereas appropriate laws are generally in place, inconsistent or ineffective application of the legal framework has been observed in Moldova. The country is also a party to several international disputes relating to the deprivation of business interests or property.<sup>5</sup>

**Rule of Law - Selected Indicators**  
(Standard deviations from the mean, higher=better)

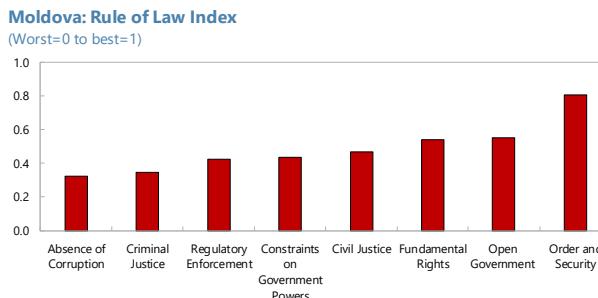


Sources: World Bank Doing Business, World Economic Forum Global Competitiveness Index, World Justice Project Rule of Law Index, and IMF staff calculations. Sample range: 100+ countries.

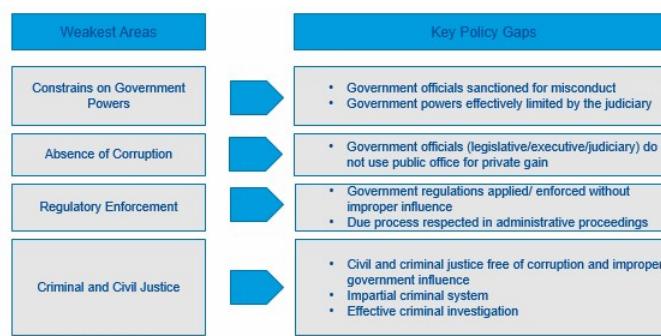
Note: There is some uncertainty around Moldova's point estimates.



- *There are other important rule of law weaknesses.* The World Justice Program rule of law index shows Moldova scores relatively worse on criminal and civil justice, regulatory enforcement, constraints on government powers, and absence of corruption within government officials. Within those, the low scores are related to government powers not being effectively checked by the judiciary, government officials being accused of using public office for private gain and not being sanctioned for misconduct, and improper influence on both criminal and civil justice, as well as on the application of regulations.



Source: World Justice Project (2019). Note: There is some uncertainty around Moldova's point estimates.



## D. Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

### 9. AML/CFT vulnerabilities facilitate corruption and undermine macro-financial stability.

An inadequate AML/CFT framework facilitates corruption by allowing private agents or public officials to conceal the proceeds from corrupt acts through illicit financial flows. It can also undermine the stability of a country's financial system or its broader economy by diverting resources away from economically- and socially-productive uses (IMF 2018). The more exposed a country is to corruption vulnerabilities, the more important it is to have a strong AML/CFT framework to make it harder to conceal illicit proceeds.

### 10. The AML/CFT regime can be a powerful instrument to support a country's anti-corruption efforts.

A country's AML/CFT regime not only can help shield the financial sector from such illicit flows through the application of preventive measures but can also be instrumental in the detection and enforcement of corruption offences. Given the frequent cross-border nature of financial crime, notably the obfuscation and laundering of corrupt proceeds, international

cooperation is often instrumental in the recovery of corrupt proceeds. The AML/CFT regime also promotes transparency of corporate ownership and calls for the identification of the ultimate beneficiaries of assets and financial transactions. Finally, when properly operationalized, the asset declaration system can help detect illicit enrichment and the laundering of proceeds of corruption.

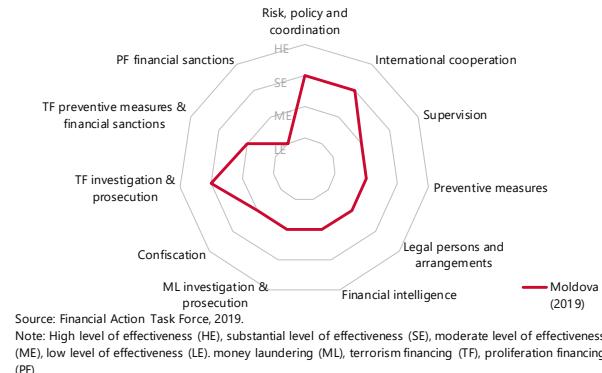
### **11. International standards can help assess the strength of a country's AML/CFT frameworks.**

This paper draws on the methodology used by the Financial Action Task Force (FATF)<sup>6</sup>—which evaluates the effectiveness of a country's AML/CFT framework on 11 areas—by focusing on 4 aspects to determine if:

- Proceeds of corruption are prevented from entering the financial and other sectors (e.g., real estate) or are detected and reported by these sectors → **Preventive Measures**
- Information on beneficial ownership of companies and trusts is available to competent authorities without impediments → **Transparency**
- Money-laundering activities are detected and prosecuted, criminals are sanctioned and deprived of illicit proceeds → **Criminal Justice**
- Appropriate information and evidence are shared through international cooperation to facilitate action against criminals and their assets → **International Cooperation**

**12. Moldova's AML/CFT framework has important vulnerabilities which undermine its anti-corruption effectiveness.** In an assessment against the prevailing international standard for AML/CFT, a 2019 report by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval) identified important weaknesses in Moldova's AML/CFT regime. The overall understanding of ML/FT risks across the financial sector was not sufficiently comprehensive, ML enforcement was not fully in line with the country's high risk-profile, there were important gaps in the identification of beneficial owners and application of customer due diligence measures in some sectors, and insufficient priority was given to seeking and providing international assistance.

**AML/CFT Framework - Effectiveness Ratings**



**13. Better enforcement and resourcing are common themes across the identified policy priorities.** Proper implementation of the AML Laws (2018) and Moneyval (2019) recommendations is paramount, including:

<sup>6</sup> <https://www.imf.org/external/np/leg/amlcft/eng/aml2.htm>

- *Preventive measures.* The authorities should continue efforts to improve the implementation of preventive measures among reporting entities, notably with respect to enhanced due diligence for politically exposed persons and beneficial ownership requirements.
- *Criminal Justice.* The authorities should aim to (i) be more proactive in pursuing ML cases in line with the main ML/FT risks (e.g., corruption); (ii) appropriately resource and train law enforcement consistently applying the existing legislation; (iii) pursue confiscation as a matter of priority, (iv) improve the effectiveness of the criminal asset recovery system, including by adopting the National Strategy on criminal asset recovery.
- *Transparency.* The authorities should aim to (i) carry out a comprehensive assessment of ML/TF risks from legal entities and adopt appropriate risk-mitigating measures, (ii) impose effective, proportionate and dissuasive sanctions for non-compliance, and (iii) improve domestic systems for capturing beneficial ownership information.
- *International cooperation.* Enhance the awareness of all competent authorities on the possibilities for international co-operation in ML and FT cases and improve the accessibility to beneficial ownership information at the domestic level.

#### **14. Five years after the banking fraud, progress on asset recovery has disappointed.**

Despite Moldova's comprehensive institutional framework, which includes a national anti-corruption center and a dedicated criminal asset recovery agency, a lack of political will, the influence of vested interests, and capacity constraints have stalled recovery efforts. While around MDL 1 billion worth of assets have been seized domestically, these amounts are small relative to the scale of the fraud and mainly involve only equity stakes. Investigation and prosecution of perpetrators is likewise lagging.

### **E. Regulatory Framework**

#### **15. Effective market regulation fosters competition, promotes accountability, and removes undue discretion.** Strong regulatory and institutional

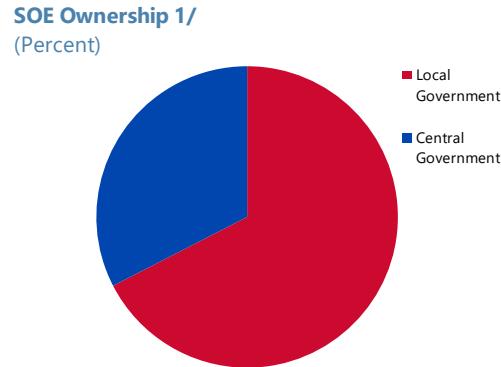
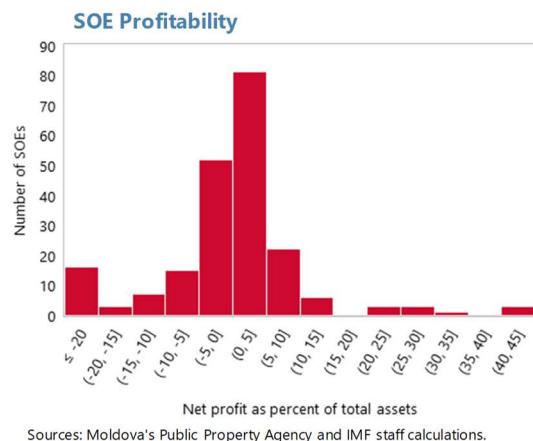
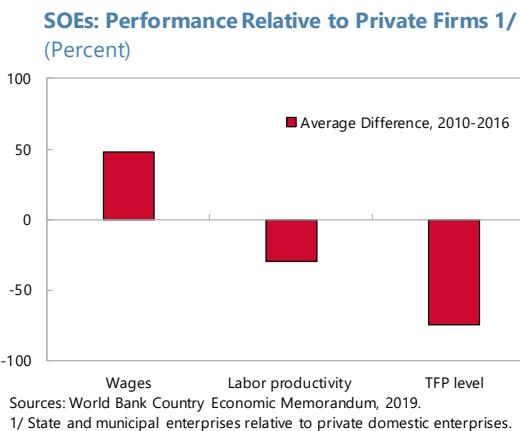
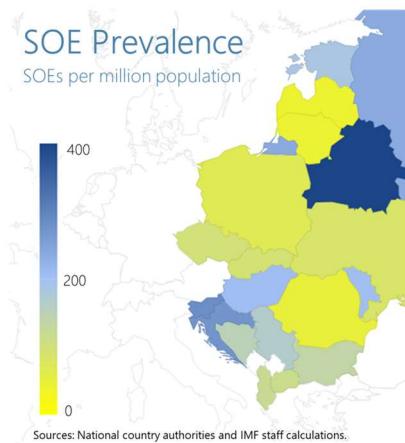
frameworks create the right incentives for fostering competition and encouraging private investment, while addressing market failures through targeted interventions, and minimizing opportunities for fraud, abuse and rent extraction by removing undue discretion and promoting accountability. This assessment focuses on the extent to which the complexity and opacity of the regulatory environment creates incentives for corruption and hinders competition and private investment.



Source: World Economic Forum, Global Competitiveness Index (2019).  
Note: There is some uncertainty around Moldova's point estimates.

#### **16. Market competition appears very limited.** The Global Competitiveness Index suggests Moldova ranks below several countries in the score for competition in domestic product markets, with a particularly weak score for the extent of market dominance.

**17. A large SOE sector undermines competition.** The number of SOEs per capita in Moldova is among the highest in the region and SOEs typically enjoy large market shares despite being less productive. Legal monopolies, large state aid, and price controls often prevent a level playing field for private firms (IMF 2019a, World Bank 2019). The SOE sector is prone to weak governance, non-commercial mandates, and poor capacity and independence of supervisory boards. Oversight is weak, particularly by local governments, which own most of these companies.



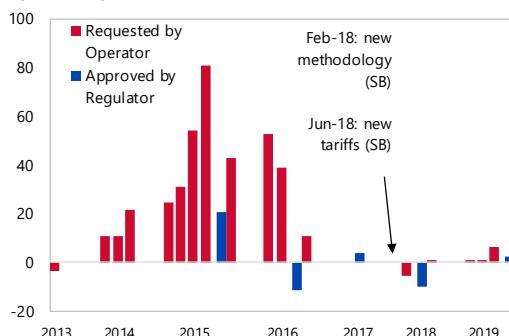
**18. Tariff-setting practices in the energy sector are particularly weak.** Whereas the regulator has *de jure* independence, *de facto* tariff-setting is highly politicized, unpredictable, and non-transparent. This creates business uncertainty for the energy providers (deterring investment and potential competition) and their customers, who cannot accurately budget for their energy spending. Program conditionality has helped improve energy sector regulation, including the adoption of reasonable tariff methodologies. But enforcement remains ineffective:

- In the electricity sector, years of artificially low tariffs inhibited much-needed investment on network maintenance, with infrastructure stretched beyond its normal useful life. Tariff

adjustment since the 2018 methodology has been timely and broadly adequate, but the new process stands to be tested by a large tariff increase.

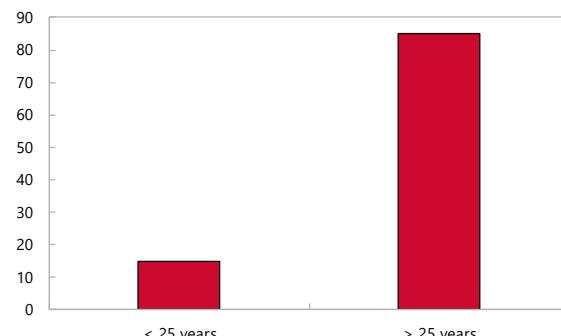
- In the *gas* sector, tariffs were adjusted too infrequently in recent years due to a lack of requests by the operator—a joint-stock company owned by the Moldovan state and Russia’s Gazprom—and regulatory inaction. The 2019 tariffs are overdue, as the operator has not requested an adjustment despite accumulating large losses (up to 1 percent of GDP).

**Electricity Supply Tariff Adjustments, 2013-latest  
(Percent)**



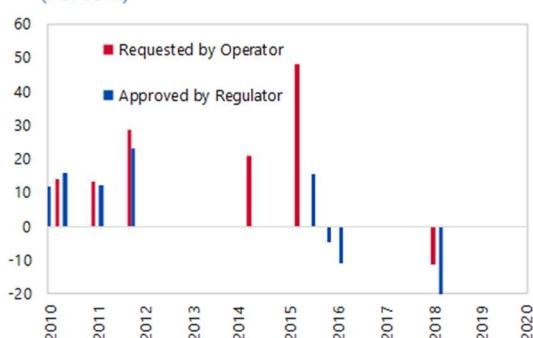
Source: Operator.

**Operating Period of Power Transformers  
(Percent of total transformers)**



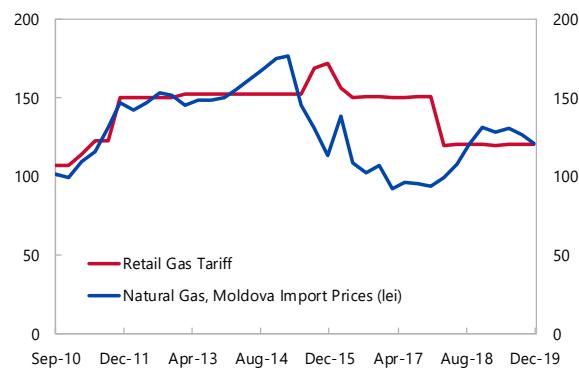
Sources: Electricity network development plan for 2018 - 2027 and IMF staff calculations.

**Gas Tariff Adjustments  
(Percent)**



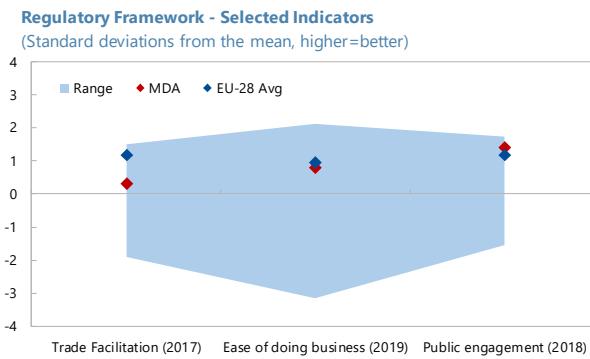
Source: Operator.

**Gas Tariffs and Natural Gas Prices  
(Index, 2010Q2 = 100)**



Source: ANRE, NBS and Datastream.

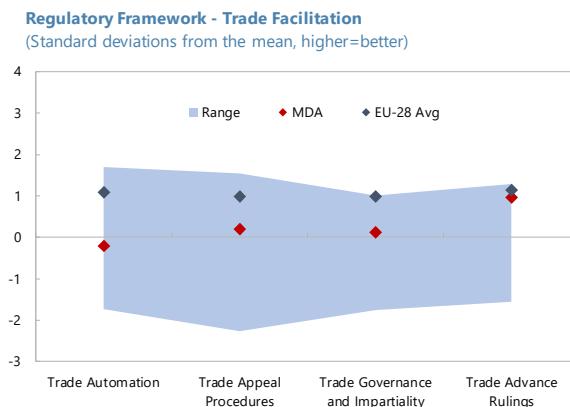
- 19. There is room for improving the regulation of external trade.** Undue discretion in the regulation of external trade can be a source for rent-seeking behavior. According to Moldovan businesses, corruption at the border and burdensome import procedures are among the most problematic factors for importing (World Economic Forum, 2016). Trade facilitation practices in Moldova are slightly above the cross-country average, but significantly below those in the EU. Policy gaps include improving procedures to appeal administrative decisions from border agencies, increasing automation of payments, data exchange, and border procedures, as well as enhancing customs structures, functions and accountability.



Sources: World Bank *Doing Business* and *Gloabl Indicators of Regulatory Governance*, OECD *Trade Facilitation Indicators*, and IMF staff calculations.

Number of countries in sample range: Ease of doing business (187), Public engagement (182), Trade Facilitation (161).

Note: There is some uncertainty around Moldova's point estimates.

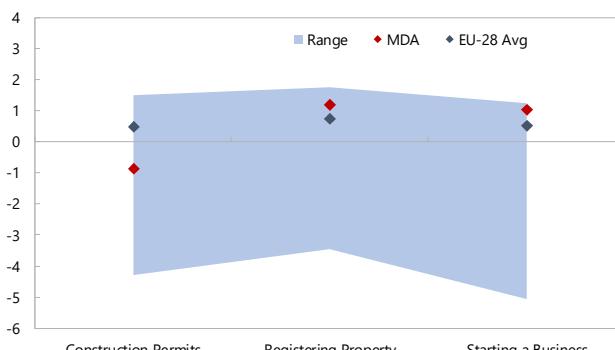


Sources: OECD *Trade Facilitation Indicators* (2017), and IMF staff calculations.

Note: There is some uncertainty around Moldova's point estimates.

**20. Public engagement and doing business practices in Moldova compare well with other countries.** The cross-country comparison shows that the degree of government engagement of stakeholders when introducing or modifying regulations, as well as Moldova's doing businesses practices are significantly above the cross-country average and comparable to the EU. Registering a property and starting a business are particularly easy in Moldova. But obtaining a construction permit remains problematic, as it takes too long, and it requires too many procedures.

**Regulatory Framework - Ease of Doing Business**  
(Standard deviations from the mean, higher=better)



Sources: World Bank *Doing Business* and *Gloabl Indicators of Regulatory Governance*, and IMF staff calculations. Note: There is some uncertainty around Moldova's point estimates.

## F. Fiscal Governance

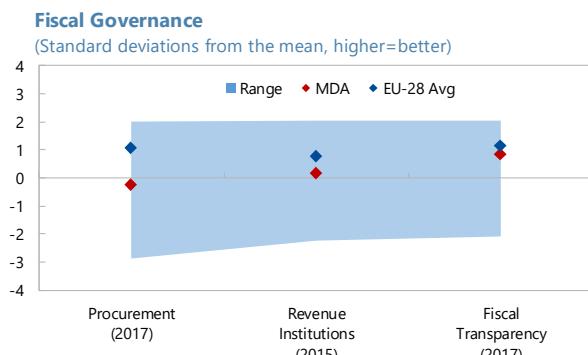
**21. Fiscal governance vulnerabilities typically come from three main areas.** Weaknesses in **revenue mobilization**, including those from corruption, can have adverse consequences for deficits, debt accumulation, and the provision of public services. Weaknesses in **public spending** (including procurement) can inflate costs, generate inefficiencies and biases towards wasteful subsidies or projects that generate kickbacks. Insufficient **fiscal transparency** can undermine accountability and provide opportunities for misappropriation of public funds (IMF 2018).

### 22. Low tax efficiency, weak revenue institutions, and extensive tax exemptions

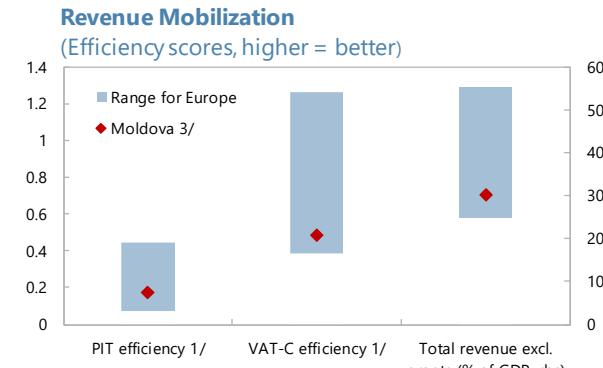
**undermine revenue mobilization in Moldova.** Notwithstanding recent progress, PIT efficiency and VAT C-efficiency remain relatively low given a narrow tax base, high informality, and tax evasion. The strength of Moldova's revenue institutions is also below the EU-average, according to the IMF's Revenue Administration Information Tool, which assesses countries on 30 areas covering internal management, discretionary power of tax officials, and coverage and usage of third-party

information. Revenue losses through tax expenditures are significant, amounting to about 3.5 percent of GDP according to preliminary estimates.<sup>7</sup> Based on these indicators and on ongoing IMF technical assistance, policy priorities include:

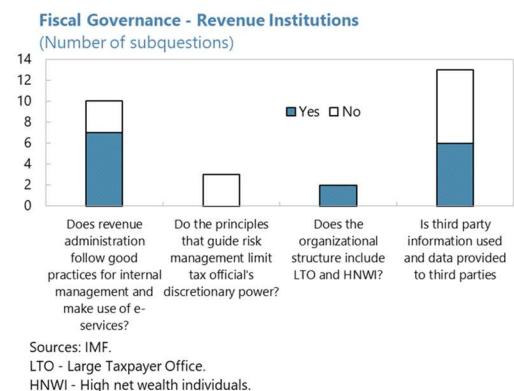
- (i) addressing the informal economy and VAT fraud
- (ii) improving the taxpayer register
- (iii) addressing tax avoidance and evasion schemes used by large corporates and high-wealth individuals
- (iv) effective prosecution of tax crimes
- (v) strengthening reform and data-processing capacity of the State Tax Service
- (vi) limiting tax official's discretionary power (electronic auditing, automated risk profiling)
- (vii) streamlining tax expenditures to limit revenue losses



Sources: World Bank *Benchmarking PPPs*, International Survey on Revenue Administration, Open Budget Survey, Open Data Barometer, PEFA, and IMF staff calculations. Number of countries in the sample range: 130+. Note: There is some uncertainty around Moldova's point estimates.



Sources: IMF staff calculations.  
1/ latest year available.  
2/ 2018.  
3/ Data for Moldova from 2018.



Key Policy Gaps	
Revenue Administration	external auditor and online applications for taxpayers
Discretionary Power	automated risk profiling as part of processing payments and returns; electronic audit methods
Data Processing	not based on computer-based systems for many sectors

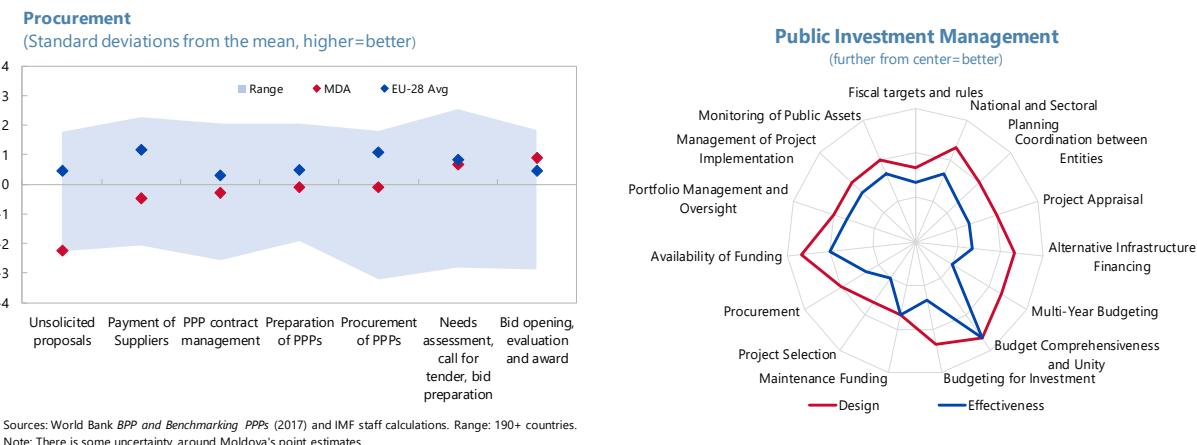
## 23. Poor procurement practices and ineffective public investment management undermine the efficiency of public spending. In turn:

- *Procurement:* Moldova's public procurement practices perform relatively worse than most countries in a range of criteria, including the scope for unsolicited proposals to the procuring

<sup>7</sup> Ongoing FAD TA suggests that tax expenditures in Moldova could be even higher.

agency, payment of suppliers, as well as preparation, procurement, and contract management of public-private partnerships (PPPs). IMF 2015 highlighted other important weaknesses, including (i) a domestic bias in the public procurement legislation, (ii) potential for conflict of interest as the public procurement agency is involved in contract award decisions, approval of procurement transactions and related appeals, (iii) the lack of an independent procurement complaints review body, and (iv) procedural shortcomings (e.g., limited e-procurement coverage, short deadlines for tender submission).

- **Public Investment Management (PIM):** Weak PIM contributes to persistent under execution of budgeted capital spending and large infrastructure needs. Recent IMF technical assistance showed that whereas Moldova's PIM institutional framework is broadly in line with good international practices, inconsistent application and narrow coverage limit its effectiveness. Policy priorities include (i) extending the coverage of the PIM framework to all public investment projects, (ii) increasing transparency and accountability of the budget and the medium-term budget framework, and (iii) capacity building.



**24. There is room for improving fiscal transparency.** Moldova performs above average in a cross-country comparison of fiscal transparency indicators covering several aspects of fiscal reporting (Public Expenditure and Financial Accountability Assessments), auditing (Open Budget Survey), and public participation through right-to-information legislation and open government data initiatives (Open Data Barometer). But incomplete and non-systematic monitoring of joint-stock companies and state-owned enterprises, as well as basic fiscal risk analysis and management of subnational governments are important policy gaps (IMF 2019a, 2020).

## G. Financial Sector Oversight

**25. Weak financial sector regulation and supervision can have significant macro-economic consequences.** Assessing the quality of financial sector oversight requires examining the capacity and effective autonomy of the supervisory agency, as well as aspects of the framework that are most relevant to safeguarding the integrity of financial system and minimizing opportunities for corruption (IMF 2018).

**26. Important progress has been made in the banking sector.** The 2016 FSAP for Moldova identified severe vulnerabilities, particularly with regards to the supervisory agencies, enforcement powers, and requirements and practices of financial sector entities. Since then, significant progress has been made, supported by program conditionality, towards (i) shareholder transparency, fitness and probity in both systemic and non-systemic banks, (ii) unwinding (previous) related-party transactions, (iii) improving regulations on banks' transactions with related parties, (iv) enhancing the NBM's operational framework for emergency liquidity assistance, and (v) operationalizing a central securities depository.

**27. But governance weaknesses in the non-bank financial sector are significant.** Lending by non-bank credit organizations has grown sharply, raising concerns household overleveraging, predatory lending practices, and money laundering risks. Strengthening risk-based supervision, ownership transparency, governing bodies, asset classification, risk management, and internal control frameworks are of utter importance. In the insurance sector, vulnerabilities include weak regulation and supervision, as well as non-transparent ownership.

## H. Central Bank Governance

**28. Strong central bank governance is a major pillar of macroeconomic stability.** Central banks are unique institutions. Their policy-making mandates directly affect the economy, while their complex balance sheets could create corruption vulnerabilities. Good governance and autonomy are essential for effective monetary policy, as political interference to achieve short term gains could lead to long term costs such as higher inflation, lower credibility and thus higher growth and employment costs to achieve the same rate of inflation. They are also important for the central bank's financial stability mandate, since these institutions often have supervisory or regulatory powers and sometimes also macro- or micro-prudential tools.<sup>8</sup> In the context of Fund-supported programs, weak central bank governance can also result in inappropriate use of the Fund resources.

**29. This assessment followed the principles of central bank safeguards assessments.** When assessing vulnerabilities in the governance and operations of central banks, this assessment drew on the Fund's safeguards assessment framework and focused on three main areas: (a) the adequacy of the mandate, decision-making structure and autonomy of the central bank; (b) the accountability and transparency framework; and (c) the effectiveness of the internal control environment.<sup>9</sup>

**30. A safeguards assessment of the National Bank of Moldova (NBM) was completed in 2017 and progress in addressing its recommendations has been made.** The assessment noted that the NBM's safeguards framework had been strengthened through legal reforms which established a governance structure with independent oversight over NBM management. Transparency and accountability practices were thought to adhere to international standards, and operational controls were considered sound (IMF 2017). Since then, progress has been made to

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<sup>8</sup> <https://blogs.imf.org/2019/11/25/central-bank-accountability-independence-and-transparency/>

<sup>9</sup> <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/43/Protecting-IMF-Resources-Safeguards>

address the report's recommendations. Notably, the NBM's operational framework for emergency liquidity assistance has been strengthened by legal amendments that prevented it from being extended to insolvent or non-viable banks (IMF 2019b).

**31. Safeguarding NBM independence is a priority.** Operational independence of the NBM plays a pivotal role in sustaining confidence in—and recovery of—the banking system, enhancing the credibility of the inflation-targeting regime, and safeguarding macro-financial stability. Legal reforms enacted in the aftermath of the 2014 banking crisis and supported by the IMF have strengthened the NBM's governance structure, balance sheet, and autonomy. But recurring political initiatives risk undermining the NBM's autonomy.<sup>10</sup>

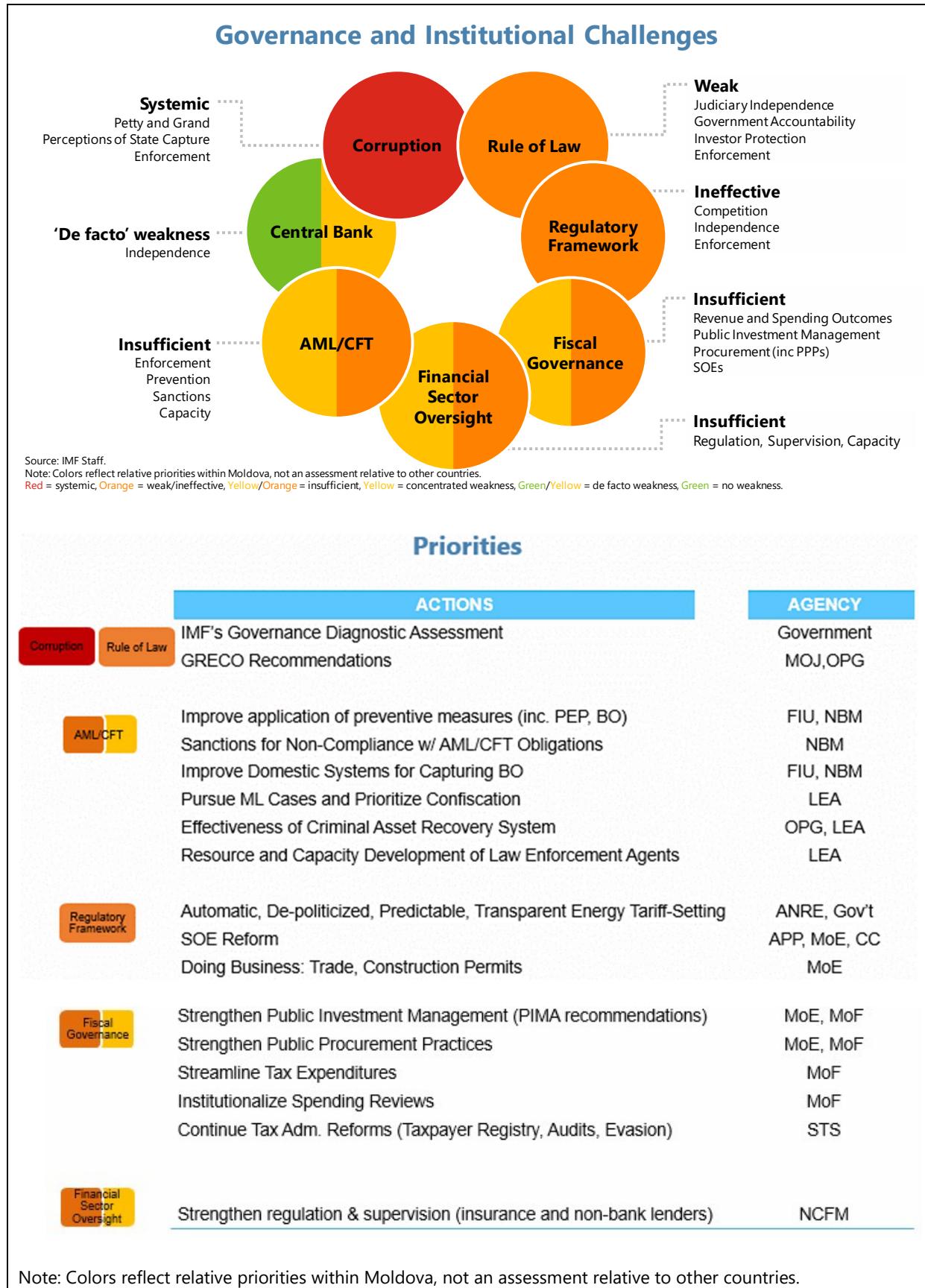
## CONCLUSION

**32. Staff assess governance and institutional vulnerabilities to be severe in Moldova.** The range of indicators and expert analysis covered in this report suggests Moldova is subject to severe and widespread governance and institutional vulnerabilities. Corruption is perceived to be systemic. The perception of weak rule of law—combined with important gaps in the AML/CFT framework—creates incentives for corruption by facilitating concealment of illicit flows and failing to produce an effective threat of prosecution. A large SOE sector and ineffective market regulation undermine competition and private investment. Tax evasion is high, and public investment management and procurement practices weak. Significant progress has been made on banking sector oversight under the 2016 ECF/EFF arrangement, but weak regulation and supervision of the non-bank financial sector and recent initiatives that threaten central bank independence pose significant risks.

**33. Strengthening the judiciary and rule of law and accelerating SOE reform are clear priorities.** The widespread nature of governance vulnerabilities and institutional weaknesses in Moldova, combined with capacity constraints, creates challenges for policy formulation and prioritization. But whereas there is room for improving provisions, regulation and frameworks in most areas, poor enforcement and implementation of the legal framework are a common problem across sectors and institutions. Policy efforts should therefore focus on strengthening rule of law and reforming Moldova's judiciary system, as well as building capacity and increasing the autonomy of key institutions. Steadfast SOE reform would foster competition, investment, and productivity, while reducing fiscal risks.

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<sup>10</sup> Some of these proposals included using a portion of Moldova's foreign currency reserves to invest on roads, revising the terms on the NBM holdings of government securities, and public calls for changing the procedures for appointment and dismissal of NBM executive board members.



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