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# COMMISSION STAFF WORKING DOCUMENT

## ex-ante evaluation statement

*Accompanying the document*

**Proposal for a**
**DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**amending DECISION (EU) 2022/563 as regards the amount of macro-financial assistance to the Republic of Moldova**

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**Ex-ante evaluation statement**

**EU Macro-Financial Assistance to the Republic of Moldova**

**TABLE OF CONTENTS**


1. PROBLEM ANALYSIS AND NEEDS ASSESSMENT ..... 2
1.1 Introduction ..... 2
1.2 Moldova's macroeconomic situation ..... 3
1.3 IMF and other donor support ..... 5
1.4 External financing needs ..... 7
1.5 Structural reforms ..... 9
2. OBJECTIVES AND RELATED INDICATORS OF THE MACRO-FINANCIAL ASSISTANCE ..... 14
2.1 Objectives ..... 14
2.2 Monitoring indicators ..... 14
3. DELIVERY MECHANISMS AND RISK ASSESSMENT ..... 15
3.1 Delivery mechanisms ..... 15
3.2 Risk assessment ..... 16
4. ADDED VALUE OF EU INVOLVEMENT ..... 17
5. CHARATERISTICS OF MACRO-FINANCIAL ASSISTANCE ..... 17
5.1 Exceptional Character and Limited Time-frame ..... 17
5.2 Political preconditions and EU-Moldova relations ..... 18
5.3 Complementarity ..... 19
5.4 Conditionality ..... 20
5.5 Financial Discipline ..... 20
6. EVALUATION AND COST-EFFECTIVENESS ..... 21
6.1 Evaluation ..... 21
6.2 Achieving cost-effectiveness ..... 21
ANNEX ..... 22
ASSESSMENT ON DEMOCRACY, HUMAN RIGHTS, RULE OF LAW AND REFORMS IN THE REPUBLIC OF MOLDOVA ..... 22

# 1. PROBLEM ANALYSIS AND NEEDS ASSESSMENT

## 1.1 Introduction

The global economic situation proved increasingly difficult. The conditions underlying Moldova's first request for macro-financial assistance in 2022 have further worsened. Moldova is both directly and indirectly exposed to the intensification of Russia's war of aggression against Ukraine. Over half a million people have crossed the Moldovan border since the start of the war, of which about 90 000 remain in the country (corresponding to some 3.4% of the population). The Moldovan economy has therefore been under considerable pressure. Following a marked post-pandemic recovery in 2021, growth in the first nine months of 2022 plummeted, entering a deep recession. Since October 2021, Moldova has also been facing an energy crisis of considerable magnitude (illustrating Russia's readiness to use energy as a tool of influence). Strained economic conditions have led to some increasing domestic political tensions, especially among the opposition parties that organized numerous street protests, and in the two regions of Moldova, Transnistria and Gagauzia, which traditionally have close links to Russia. Notwithstanding a strong willingness to aid migrants from Ukraine and to undertake reforms that could address some of its own challenges, Moldova continues to struggle with multiple and amplifying crises at the same time, requiring additional support and financial assistance from international partners.

To briefly recall and in relation to the energy crisis, on 19 November 2021, Moldova requested a new Macro-Financial Assistance (MFA) operation. The MFA amounting to EUR 150 million (in loans on concessional terms and grants) was adopted by the Parliament and Council on 6 April 2022 and entered into force on 18 July. Following successful fulfilment of the policy conditions attached to the first instalment, the first disbursement was made on 1 August 2022. Under the ongoing operation, Moldova has still EUR 100 million (in loans on concessional terms and grants) in two instalments available until January 2025.

In line with regular MFA procedures, the operation was made available to Moldova in conjunction with a new IMF arrangement, which was adopted in December 2021 and augmented in May 2022. The overall expanded support by the IMF under the three-year Extended Credit Facility/Extended Fund Facility (ECF/EFF) programme amounts to USD 795 million.

After the outbreak of Russia's war of aggression in neighbouring Ukraine, Moldova has received considerable assistance from other international partners. In April 2022, the International Financial Institutions and bilateral donors set up the Moldova Support Platform to pledge further financial assistance.

Notwithstanding the reinforced support from Moldova's international partners, the energy crisis poses severe challenges, reflecting Moldova's dependence on gas supplied by Russia. In addition, the bombings of key energy infrastructure in Ukraine have led Ukraine to stop electricity exports

to Moldova and thereby cut the country from a major alternative source of electricity supply. The authorities have tried to address the crisis by taking measures aimed at considerably reducing the energy consumption as well as supporting the most vulnerable consumers. The cost of the subsidies for energy tariffs is estimated at EUR 250 million for 2023, fuelling Moldova's fiscal needs. According to the latest IMF's estimates (December 2022), Moldova's overall external financing gap in 2023 has increased by EUR 430 million (around 3% of GDP), compared to the IMF first programme review (September 2022) – resulting in an overall financing gap of about 5% of GDP for 2023.

Against this backdrop, the Commission submits to the European Parliament and the Council a proposal to increase the existing MFA assistance to Moldova by EUR 145 million, of which EUR 100 million in loans and EUR 45 million in grants. The proposed legal basis is Article 212 of the TFEU.

The additional MFA assistance would be disbursed in two new instalments, linked to additional policy conditionality, good progress on the implementation of the Association Agreement and the Deep and Comprehensive Free Trade Area Agreement (DCFTA) as well as continued positive track record in the implantation of the IMF programme. The policy conditions attached to the two new instalments would build on the policy actions agreed under the current MFA in the Memorandum of Understanding, as well as ensure coherence with the EU-Moldova policy priorities and the Moldovan government agenda. The additional support is also in line with the enhanced EU-Moldova relations, underpinned by the candidate country status, which Moldova was granted on 23 June 2022.

As further elaborated in this Commission Staff Working Document, the Commission considers, based also on the assessment of the political situation made by the European External Action Service, that the political and economic pre-conditions for the proposed MFA increase are satisfied.

### 1.2 Moldova's macroeconomic situation

The Russian invasion of Ukraine had a strong negative impact on the Moldovan economy amid an increasingly challenging global context. In January-September 2022, growth plummeted by 4% year-on-year, suggesting a deep recession for the year overall. The contraction was driven largely by a fall in household consumption and investment. On the production side, agriculture had a strongly negative impact on growth, following weak output due to a draught in the summer. The energy crisis that intensified in 2022 has put additional pressure on Moldova's finances. The sharp rise in energy prices contributed to the record high inflation and on the fiscal side, it necessitated further spending on subsidies for the most vulnerable consumers.

In 2023, Moldova's outlook remains bleak. It is set to be further impacted by the intensifying of Russia's attacks on Ukraine as well as the economic slow-down across the EU (Moldova's key

trading partner). According to the latest IMF forecast (December 2022), in 2023, growth will pick up only moderately, to 1.5%, and it will go back to its pre-crisis levels only in 2024/2025.

In 2023 inflation is set to decelerate markedly, yet remaining in the double-digit levels, averaging at 13.7%, compared to 28.5% in 2022. The spike in energy and food prices drove the high inflation in 2022, peaking at 34% in October. In response to the strong inflationary pressure, the central bank revised the key interest rate three times last year (by a cumulative 9 percentage points), to 21.5%. By end-year inflation began to ease, yet moderately (to 31% in November), prompting a slight downward adjustment of the base rate to 20%.

The budget deficit is set to remain wide in 2023, at 6% of GDP, compared to 4.2% of GDP in 2022. Much of the widening can be accounted for higher spending on the most vulnerable consumers because of the spike in energy tariffs and some public salary increases, deemed necessary given the soaring inflation. Moldova's public debt-to-GDP ratio, while low compared to most of its regional peers, is set to increase to 38% in 2023, against 36% of GDP by end-2022. About 95% of Moldova's public external debt was extended by multilateral creditors at concessional terms. Nevertheless, due to high sensitivity to external shocks, last year, the IMF has revised Moldova's risk of debt distress from low to medium.

On the external side, the current account deficit remains high, at 13.7% in the third quarter of 2022. It is driven largely by a high negative trade balance, at about 32% of GDP in the quoted period. However, at 14.2% of GDP, remittances remained broadly stable, despite some initial projections that transfers from abroad, especially, Russia and the Commonwealth of Independent States would fall markedly. The net foreign direct investment has presented some resilience in the first half of 2022 (largely due to companies' high reinvested earnings), but given the uncertainty caused by Russia's war of aggression against Ukraine, it is projected to decrease sharply, down to 0.4% of GDP for 2022 overall, according to the IMF forecast (December 2022).

Since the start of the Russian invasion of Ukraine, Moldova's foreign currency reserves have been highly volatile, which has prompted sizable interventions by the central bank. Initially, Moldova's foreign currency reserves decreased considerably from USD 3.9 billion at the end of 2021 (covering 5.5 months of imports) to a trough of USD 3.3 billion (covering 4.5 months of imports) in April 2022. This was largely caused by a rapid withdrawal of bank deposits. The Moldovan leu also depreciated against the US dollar by around 7% in the first half of 2022. Although the reserve levels have been restored by end-2022, risks on the downside, related largely to the ongoing Russia's war of aggression against Ukraine, remain. The central bank projects a drop in reserves at the start of 2023, partly due to a mild economic recovery and higher import demand, as well as additional fluctuations in the FX market.

**Table 1: Moldova – Selected macroeconomic indicators, 2019-2025**

| | 2019 | 2020 | 2021 | 2022 Proj. | 2023 Proj. | 2024 Proj. | 2025 Proj. |
|---|---|---|---|---|---|---|---|
| | (Annual % change, unless otherwise specified) | | | | | | |
| ***National Accounts*** | | | | | | | |
| Real GDP growth | 3.7 | -7.0 | 13.9 | -1.5 | 1.5 | 4.3 | 5.0 |
| Population (million) | 2.6 | 2.6 | 2.5 | 2.5 | 2.4 | 2.4 | 2.3 |
| Consumer price index, period average | 4.8 | 3.8 | 5.1 | 28.5 | 13.8 | 5 | 5 |
| GDP per capita (USD) | 4 464 | 4 377 | 5 284 | 5 528 | 5 743 | 6 128 | 6 748 |
| Unemployment rate (in per cent) | 5.1 | 3.4 | 2.6 | 2.9 | 3.0 | 3.0 | 3.0 |
| | (In % of GDP, unless otherwise indicated) | | | | | | |
| ***Consolidated government operations*** | | | | | | | |
| Revenue and grants | 30.5 | 31.4 | 32.0 | 33.1 | 32.6 | 32.0 | 32.3 |
| Expenses | 32.0 | 36.7 | 34.6 | 37.3 | 38.6 | 36.6 | 36.2 |
| Overall fiscal balance | -1.4 | -5.1 | -1.9 | -4.2 | -6.0 | -4.6 | -3.8 |
| General Government gross debt | 27.9 | 33.1 | 32.6 | 36.0 | 37.9 | 40.3 | 40.0 |
| External debt | 63.2 | 72.5 | 64.2 | 69.7 | 73.9 | 77.3 | 75.3 |
| | | | | | | | |
| ***External sector*** | | | | | | | |
| Current account balance | -9.5 | -7.7 | -11.3 | -13.4 | -11.8 | -11.5 | -9.9 |
| Gross international reserves, end of period (USD bn) | 3.1 | 3.8 | 3.9 | 3.5 | 3.9 | 4.3 | 3.4 |
| - In months of next year's imports of goods/services | 6.2 | 5.7 | 4.9 | 4.3 | 4.5 | 4.7 | 4.5 |
| Foreign direct investment, net | 3.9 | 1.3 | 1.7 | 0.4 | 1.5 | 1.6 | 1.6 |
| Nominal exchange rate (average - lei/USD) | 17.6 | 17.3 | 17.6 | … | … | … | … |

*Sources: IMF staff estimates, World Bank, MoF*

## 1.3 IMF and other donor support

Since 1993, Moldova has benefited from several IMF arrangements. The current one, Extended Credit Facility/Extended Fund Facility of USD 558 million (equivalent to SDR 400 million or 232% of Moldova's quota in the Fund), was adopted in December 2021 for a period of 40 months. The programme was set to help Moldova address it's urgent financing needs, following the gas crisis in October 2021. The reform priorities were set, among others, to strengthen the transparency and accountability of public institutions in Moldova (especially in the financial sector) and improve policy implementation. The programme is also set to tackle some of the key reform challenges, especially, on anti-corruption and good governance.

After the outbreak of Russia's aggression against Ukraine and given the sizable economic effects, Moldova requested an ad hoc review and an augmentation of the standing arrangement. Following a positive opinion by the Board, in May 2022, the IMF programme was increased by USD 260 million, of which USD 144 million were disbursed immediately after the Fund's decision. The IMF programme increase was set to help Moldova address its urgent balance of payment needs stemming from the war as well as a spike in energy prices. At the time of the augmentation, the Fund assessed that in terms of reform implementation, overall progress was positive. However, given heightened uncertainty, the IMF proposed a higher frequency review schedule and two additional policy conditions, related to financial sector oversight and anti-corruption. Moldova's

capacity to repay its obligations was assessed as adequate and although risks to the programme were considered substantial, they were mitigated by strong ownership and reform commitment of the programme by the authorities.

In August 2022, the IMF conducted the first (regular) programme review, followed by a staff-level agreement in September. Good progress on the policy reforms implementation was maintained. Thus, after a positive decision by the Board, the IMF disbursed another USD 27 million under the ongoing facility. According to the IMF report (29 September), Moldova's financing needs for 2022 were fully covered, yet given the many risks on the downside, it was assessed that a financing gap may open in 2023. The Fund drew particular attention to risks stemming from Moldova's vulnerable energy position (being fully reliant on Russian gas and with imports of electricity from Ukraine cut down due to the invasion) and its exposure to the war in Ukraine.

During October-November 2022, the IMF conducted its second programme review. The macroeconomic assessment was largely maintained, while projecting a slightly larger recession in 2022 (of -1.5%) and a milder rebound in 2023. The IMF also confirmed the growing external financing and therefore an increased urgency for further international support. The pressure stems largely from the ongoing energy crisis (including both gas and electricity) prompting additional fiscal needs, as well as high inflation and limited ability to borrow domestically. The IMF has also assessed that Moldova's foreign currency reserves are set to remain volatile, which increases the uncertainty surrounding the outlook for 2023. Since the start of Russia's war of aggression against Ukraine, in the first half of 2022, Moldova's foreign currency reserves have decreased markedly, down to USD 3.3 billion at its' lowest points in April. The draw on reserves was caused by the depreciation of the Moldovan leu against the US dollar, leading to heavy central bank interventions. Given the ongoing risks, the FX market in Moldova is exposed to possible further volatility, remaining too small and too shallow to absorb such shocks.

In light on the ongoing crises, international partners have stepped up their support for Moldova. The World Bank is in the process of preparing its new Country Partnership Framework with Moldova for the years 2023-2027. In July 2022, the World Bank had also approved an Emergency Response, Resilience and Competitiveness Development Policy Orientation in the amount of USD 159.2 million for Moldova to help the government mitigate the impacts of Russia's war of aggression against Ukraine on refugees and households and build resilience in the face of the ongoing shocks. The Policy Orientation includes a loan component of USD 43 million by the International Bank for Reconstruction and Development, a concessional contribution on a non-reimbursable basis of USD 9.24 million under the Concessional Financing Facility and an International Development Association credit of USD 107 million.

As regards assistance from the EU, following the outbreak of the energy crisis, the Commission has mobilized additional resources to provide immediate support to Moldova. EUR 60 million was made available through a budget support operation under a State and Resilience Building Contract, in line with the priorities of the 2021-2027 Multiannual Indicative Programme that was disbursed

in December 2021. In 2022, after the outbreak of Russia's war of aggression against Ukraine, and given its negative effects on the Moldovan economy, additional budget support assistance of EUR 75 million was disbursed in July, under the existing State Building and Resilience contract. Further budget support payments are expected in 2023 and notably another EUR 50 million budget support is currently under preparation to complement the MFA increase. This operation will aim at mitigating the socio-economic impact of the rising gas prices, strengthening the Government's capacity to provide tailor-made support to the most vulnerable groups and increasing Moldova's energy security in the medium to long-term.

In addition to policy-based support, Moldova also benefits from substantial project-based loans from the European Bank for Reconstruction and Development to increase its energy security. In 2022, the EBRD has disbursed a total of EUR 300 million to Moldova to increase the country's gas reserves in Ukraine and Romania under the Resilience and Livelihoods Framework supporting Ukraine and affected neighbouring countries (of total EUR 2 billion available financing under the Framework).

Moreover, in April 2022, the international financial institutions and bilateral donors set up the Moldova Support Platform to mobilise additional financial assistance. The Support Platform has, until now, convened for three meetings in April, July, and November, resulting in total confirmed assistance of EUR 1.3 billion (inclusive of the ongoing IMF and MFA operations) to date. The authorities remain, however, in close contact with international Partners to confirm further pledges for 2023 and 2024.

### 1.4 External financing needs

The IMF projections following their recent second-review programme mission point to a significant increase in Moldova's external financing needs by USD 433 million for 2023 relative to the previous programme review. The widening of the external financing gap can broadly be attributed to an increase in Moldova's overall fiscal needs and a precautionary build-up of international reserves.

The total external financing gap estimated at USD 803 million in 2023 will be partly covered by an increase in the IMF and World Bank disbursements to a total of USD 333 million and by USD 173 million provided by other official bilateral donors. The Commission would contribute to the financing of the remaining gap by USD 297 million, of which EU grants account for USD 107 million (EUR 105 million) and MFA funds for USD 199 million (EUR 195 million). The MFA funds would include one instalment of EUR 50 million provided under the on-going operation, complemented by the proposed EUR 145 million increase in the current MFA.

The proposed increased MFA, including the existing amount, corresponds to 33% of the estimated residual financing gap in 2022-2024, in line with the principles of fair burden-sharing among donors and value added of the EU's MFA enshrined in the Joint Declaration of 2013 of the Parliament and the Council on Macro-Financial Assistance. The proposed share is in line with the conclusions of the ECOFIN Council of 8 October 2002, which specified that "[…] for candidate

countries (countries which have signed Europe or Association Agreements with the EU) and European countries which are concerned by the Stabilization and Association process (countries which have signed, or are expected to sign, Stabilisation and Association Agreement), the maximum Community involvement may amount to as much as 60% of the country's residual financing needs over and above contributions from multilaterals''.

As regards 2024, any outlook is surrounded by great uncertainty, but there does not seem to be an additional financing gap at present, although risks on the downside remain, especially linked to the war against Ukraine. Additional risks are also related to the high net domestic issuance planned for 2024 (EUR 490 million), which are partly mitigated by the ongoing support from bilateral donors in the context of the Moldova Support Platform.

The MFA features as part of the Union's consolidated and increased assistance to Moldova in line with the close EU-Moldova cooperation under the Association Agreement (in place since 2016) and the candidate country status granted in July 2022.

This level of MFA support is justified by the exceptional crisis context in Moldova triggered largely by Russia's war of aggression against Ukraine and the way Russia is ready to use energy to destabilise countries. These developments led to more expensive and uncertain energy supplies for Moldova, resulting in an economic recession in 2022 and with considerable spill-over effects into early 2023, when the energy needs appear to be most acute. With limited buffers by Moldova to address the crisis, the proposed MFA operation would be a key component of the additional support package of EUR 250 million pledged by the EU to help Moldova weather the energy emergency.[1]

[1] The support package was announced by the Commission President on 10 November 2022 during her visit to Moldova.

**Table 2: Moldova's External Financing Gap and Potential Financing Sources**

| USD million | 2022 | 2023 | 2024 | Total 2022-24 |
|---|---|---|---|---|
| | | | | |
| **1. Current account balance** | -1 911 | -1 699 | -1 704 | **-5 314** |
| **2. Capital and financial account balance *** | 877 | 1 297 | 1 677 | **3 851** |
| | | | | |
| **3. Overall balance (1+2)** | **-1 034** | **-402** | **-27** | **-1 463** |
| **4. Reserves ("-" indicates increase)** | 371 | -401 | -380 | **-410** |
| **5. Overall External Financing Gap** | **-663** | **-803** | **-407** | **-1 873** |
| **6. Exceptional Financing by IMF and WB** | | | | |
| Net IMF Disbursements | 173 | 216 | 269 | **658** |
| Disbursements of World Bank's DPLs | 159 | 117 | 40 | **316** |
| **7. Residual Financing Gap** | **-331** | **-470** | **-98** | **-899** |
| **Financing of the gap** | | | | |
| EU MFA | 53 | 199 | 51 | **303** |
| EU grants | 79 | 107 | 0 | **186** |
| Other official bilateral donors | 198 | 164 | 46 | **408** |
| **Total identified sources** | **330** | **470** | **97** | **897** |

*Sources: Latest IMF staff estimates and projections (January 2022) and commission staff calculations.*

## 1.5 Structural reforms

Despite a challenging economic situation, the Moldovan authorities have continued to pursue structural reforms implementation under their ambitious government agenda "Moldova in good times, 2021-2025". These efforts accelerated following the granting of candidate country status to Moldova by the EU on 23 June 2022, and additional steps have been taken in several areas. Indeed, the Commission's Opinion (of 17 June 2022) presented nine steps that Moldova needs to address to make further progress on their path towards the EU. The specific policy areas include fight against corruption and the rule of law, as well as good governance, better public services and increased human rights protection. Additionally, the process of reform implementation has also been supported by substantial financial and technical assistance provided by multilateral and bilateral partners, including the IMF, World Bank, and the EU. On the EU side, this included the implementation of policy reforms needed for the disbursement of the first instalment under the ongoing MFA operation. As such, Moldova has successfully completed three important conditions related to financial sector governance, the 2014 bank fraud asset recovery as well as key energy sector reforms (increasing the country's gas storage capacity).

Notwithstanding these efforts and a strong commitment by the authorities to pursue further reforms, overall progress has also been affected by the overlapping crises, exposing challenges regarding institutional capacity and lack of human resources in public administration. The following section will take stock of the reform progress made since July 2021 (when the new government was elected), in the key sectors and areas, especially those that are supported under

the ongoing MFA. It will also look at areas for further improvement, which is of relevance for new policy conditions under the proposal for an increased MFA to Moldova.

**Public finance management and public administration reform**

Overall, the Moldovan authorities have been successful in conducting sound macro-economic policies and aligning the rules with international standards to ensure prudent and transparent management of public finances. The 2013-2020 Public Finance Management (PFM) Strategy has been well implemented, and its ex- post assessment served as a basis for the new PFM strategy, which is to be adopted shortly. Moldova's public administration suffers, however, from a lack of expert capacity and of skilled human resources. These challenges exist both at the structural level as well as in ensuring that the existing talent can be retained, and that new staff is attracted to work in the public sector.

The Moldova authorities remain committed to the adoption of a new PFM Strategy, in line with the EU conditionality under the current MFA. Following a public consultation process, the strategy is to be adopted by the Moldovan Parliament by the end January 2023. Overall, it notes the good progress achieved so far, with a positive assessment under the Public Expenditure and Financial Accountability Programme (PEFA). Key improvements have been made especially in terms of the accuracy of macro-economic, budgetary and debt projections.

Nevertheless, the public procurement process in Moldova requires further efforts. According to the World Bank's 2021 assessment report, the public procurement legislation, especially the secondary legislation, necessitates revision. Centralised procurement is underdeveloped and is hampered by regulatory problems as well as an inadequate e-procurement system.

The public administration in Moldova continues to suffer from significant capacity constraints, which, until now, have been addressed only partly. The State Chancellery prepared a concept note for a new public administration strategy (covering central and local administration reform), to be adopted shortly. This should serve as a first step towards a fully-fledged, updated Public Administration Reform Strategy. There is also significant scope for improvement regarding the salary system in Moldova. As a first step, in May 2022, an assessment of the salary system of the public finance sector was launched together with a functional review of the ministries.

**Rule of law and fight against corruption**

Over the years, and especially since the bank fraud crisis of 2014, the fight against corruption has been presented as a key priority for Moldova. Until the parliamentary elections in July 2021, however, progress on reform implementation has been slow. The political context in Moldova, with many leadership changes, has not been favourable to a thorough and transparent reform process. The anti-corruption institutions have suffered from lack of leadership, while investigations, prosecutions and trials in key cases having been regularly postponed. In addition, commitment to improving the overarching asset management strategy could be assessed as partial

only. It is noteworthy how the current pro-reform authorities have made the fight against corruption their key priority, with several important and decisive steps to strengthen Moldova's anti-corruption system. Nonetheless, the area continues to suffer from some limitations, leaving room for considerable improvement.

Moldova has made some progress on combatting corruption. The implementation of the National Anti-Corruption Strategy for 2017-2023 continues. However, for what concerns prevention of corruption, progress remains limited, especially with respect to high-level corruption, including among members of the parliament, judges, and prosecutors. In line with the MFA conditionality, Moldova is expected to better delineate the competences of the various anti-corruption institutions, especially the division of tasks between the Anti-Corruption Prosecutors Office and the National Anti-Corruption Centre. Some progress has also been made in bringing corruption cases to the court and in improving their prosecution. As regards the 2014 bank fraud asset recovery, the authorities have made notable progress on the preparation of the new Asset Recovery Programme, to be adopted shortly. Fight against corruption and the rule of law remain a key government priority. This is also evident by the authorities' strong commitment to the pre-vetting process, which concerns the assessment of the candidates for membership of the Superior Council of Magistrates and the Superior Council of Prosecutors.

As regards anti-money laundering, the law on anti-money laundering sanctions was adopted in May 2020 and entered into force in December 2020, but secondary legislation is still under preparation. A draft law redefining the beneficial owner concept was approved at first reading by Parliament in July 2020, and the conformity with international standards will be checked once it is adopted. Adoption of the Law on Amending and Supplementing the Anti Money Laundering/Countering the Financing of Terrorism (AML/CFT) to implement the 5th EU AML/CFT Directive is pending. This draft law notably aims at introducing a new definition of the beneficial owners that should enhance the traceability of ownership. The finalisation and adoption of a new law on control of assets and conflict of interests is also pending.

**Financial sector stability**

With support from the IMF as well as the EU, the banking sector in Moldova has gone through an important reform process. Following the bank fraud crisis in 2014, the three major systemic banks in Moldova have been restructured and are now owned by transparent and partly international shareholders. In addition, the independence of the central bank has been considerably strengthened. All three Deputy Governors have been appointed since the last MFA operation in a way that strengthens the institution's capacity and independence. Important improvements have also taken place as regards the non-bank credit institutions; overall, good cooperation is being noted between the National Bank of Moldova and the National Commission for Financial Markets.

In September 2020, the Parliament adopted legislation providing for a transfer of supervision powers from the National Commission for Financial Markets to the National Bank of Moldova,

taking effect as of 1 July 2023. The National Bank has approved the reform concept and is analysing the legal changes needed. A Memorandum of Understanding has been signed between the Financial Market Commission and the National Bank and practical da-to-day cooperation continues. The changes were necessitated by the growing portfolio of insurance and non-bank credit institutions and weak supervisory powers. Nevertheless, despite notable progress made on advancing the reform process, some areas still call for improvements, for example, as regards the delimitation of competences between the two institutions, especially concerning consumer protection and financial inclusion, with a clear task allocation for the Financial Market Commission.

The Parliament has also adopted the long-awaited changes to the law on insurance, aligning it to some extent the EU Solvency II Directive.

Moldova has also made some initial steps in joining the European Single Area Payment System (SEPA). As a first step in the process, and in line with the MFA conditionality, the Tax Code, the Contravention Code, the legislation on foreign exchange regulation and on prevention and combatting money laundering have been aligned with the Directive (EU) 2015/2366. However, further engagement by Moldova on participation in the SEPA system is needed to ensure that further criteria are met (for example, on the Payment Service Directive, Transfer of Funds, Capital Requirement Directive, and others).

**Business environment**

Moldova has been characterised by a considerable informal sector as well as a sizable footprint of the large state-owned enterprises on the economy. The authorities are thus committed to improving good governance and fight against corruption (especially at high level), which is set to provide for a more investment friendly environment in Moldova. In terms of trade relations, Moldova has also maintained good progress on the implementation of the DCFTA, progressively aligning its legislation with EU standards.

In line with the DCFTA, the conflicting trade provisions put in place by amendments to the Domestic Trade Law in December 2020 were reversed on 26 August 2022. Moldova has also continued the work on aligning its Customs Code to the Union's Customs Code, and the revised law is set to enter into force by mid-2023. Concerning other trade-related matters, further efforts are envisaged (in line with the conditions under the current MFA) to repeal the law on the Free Economic Zones, which provides for customs duty exemptions on imported goods through the Zone in accordance with Article 341 of the Association Agreement and in line with the Union Customs Code. In addition, while Moldova has made improvements on implementing its competition legislation, the independence and impartiality of the Competition Council remains an issue.

Within the area of business environment, there is scope for further improvement as regards the state-owned enterprises, especially for what concerns the corporate governance structure and selection procedures of the members in the management boards.

**Energy sector reforms**

Moldova withstood a gas crisis in late 2021, and important progress has been achieved since then in terms of diversifying supplies and increasing the resilience of the energy system, but the situation in the energy sector has remained fragile. In 2022, largely due to Russia's war of aggression against Ukraine, Moldova's energy supply, both in terms of gas and electricity, was further challenged. The country has been fully dependent on gas imports from Russia's Gazprom, which, over the autumn-winter period in 2022, progressively diminished its supply to Moldova. As a result, the authorities had to face considerably higher prices and seek for alternative energy supply solutions, where EU support proved crucial. Several steps have been taken to improve Moldova's energy security, yet, as outlined below there remains scope for further improvement.

On 2 November 2022, Moldova imported for the first time natural gas through physical reverse flow from the Slovak-Ukraine border, marking a key step towards reducing its dependence on Gazprom. On 3 December 2022, for the first time gas was transported from Romania to Moldova through the Iasi-Ungheni pipeline. In the electricity sector, since March 2022, Moldova's electricity grid has been synchronised with the European Network of Transmission System Operators for Electricity. This has been a key development in helping Moldova address the current crisis in the electricity sector, that has suffered considerably after key infrastructure in Ukraine has been destroyed by Russia, thereby putting an end to this flow (Moldova previously imported 30% of its electricity from Ukraine).

However, progress on unbundling (the separation of energy supply and generation from the operation of transmission networks) has been mixed; it is more advanced in the electricity sector than in the gas sector. In the electricity sector (in line with MFA conditionality) the Electricity Market Rules (including balancing market and imbalance procedure) entered into force on 1 June 2022. The law also introduced the Independent System Operator model for unbundling in electricity, and Moldelectrica, the transmission system operator, performed the unbundling process on the new model. Moldelectrica requested certification to the National Agency for Energy Regulation in September 2022.

On gas, VestMoldTransgaz transmission system operator was certified in September 2021 by the National Agency for Energy Regulation, but the other major gas transmission system operator, MoldovaTransgaz, failed in the unbundling process and was not certified.

Overall, the current level of concentration in electricity and gas markets is high. However, in August 2022, Moldova aligned with the rules for ensuring wholesale energy market integrity and transparency under the Regulation on Wholesale Energy Market Integrity and Transparency. This

provides the Moldovan energy regulator with the instruments needed to monitor the market and sanction possible unlawful behaviour (manipulation or uncompetitive behaviour).

The renewable energy sector, as well as energy efficiency efforts in Moldova, also present scope for further improvements, both of which could contribute to increasing the country's energy security. Moldova's main challenges in the field include lack of market-based support mechanisms to develop cost-efficient and transparent renewable power capacities, as well as lack of financing and slow implementation of energy efficiency measures in some sectors (especially, the residential and transport sectors).

## 2. OBJECTIVES AND RELATED INDICATORS OF THE MACRO-FINANCIAL ASSISTANCE

### 2.1 Objectives

The objectives of the proposed MFA operation are to:

i) Contribute to covering the external financing needs of Moldova in the context of a sizeable external financing gap.

ii) Support the fiscal consolidation effort and external stabilisation expected in the IMF programme.

iii) Support structural reform efforts aimed at improving overall macroeconomic management, strengthening economic governance and transparency, and improving the conditions for sustainable growth.

iv) Facilitate and encourage efforts by the Moldovan authorities to implement measures identified under the EU-Moldova Association Agreement and in the context of bilateral cooperation programmes (including capacity-building), support regulatory convergence and economic integration with the EU and strengthen the EU's economic policy dialogue with the authorities.

### 2.2 Monitoring indicators

The fulfilment of the objectives of the assistance will be assessed by the Commission, including in the context of the ex-post evaluation (see below), on the basis of the following indicators:

i) Progress with macroeconomic and financial stabilisation, notably by assessing the degree of adherence to the IMF-supported programme.

ii) Progress with the implementation of structural reforms, notably the specific policy actions to be identified as conditions for disbursement of the assistance, which will be negotiated between the Commission and the Moldovan authorities and included in an amended Memorandum of Understanding.

## 3. DELIVERY MECHANISMS AND RISK ASSESSMENT

### 3.1 Delivery mechanisms

The MFA increase under consideration is expected to cover part of the residual financing gap that opened in 2023 and would amount to a maximum of EUR 145 million. The Commission proposes to provide the assistance in the form of a medium-term loan of up to EUR 100 million and grants of up to EUR 45 million. Given the proposed size of the operation, the Commission is considering releasing the assistance in two additional instalments, evenly disbursed between the two regular instalments of the ongoing MFA – the second and the final one.

As the proposed amount is significant in terms of its share in the coverage of the residual financing (i.e. by 33% as noted above), it is important to ensure the MFA's value added, notably by providing the EU with sufficient leverage to promote reforms. To that end, additional policy conditions will be attached also to the new MFA disbursements, with each additional instalment being also as usual subject to good progress with the IMF programme and the specific actions agreed with the EU in the Memorandum of Understanding as well as the fulfilment of the political preconditions (see below). Given the crisis context and Moldova's administrative capacity, particular attention will be given to the feasibility of structural reform actions in the envisaged time frame.

The inclusion of an increased grant element remains consistent with the methodology for determining the use of grants and loans in EU MFA, as endorsed by the Economic and Financial Committee in January 2011, which takes into account the following criteria:

Firstly, Moldova is a lower middle-income country with a relatively low per capita Gross National Income (GNI) at 16 070 in purchasing power parity in 2021, according to World Bank data.

Secondly, while Moldova's public debt dynamic is judged to be sustainable by the IMF, the debt-to-GDP ratio increased from 27.4% at the end of 2019 (prior to the pandemic, the gas crisis, and the ongoing war in Ukraine) to 32% in the first half of 2022. Moreover, the risk of debt distress in Moldova has been recently revised by the IMF from low to moderate, given the country's sensitivity to ongoing crises.

Thirdly, Moldova remains eligible for concessional financing from the IMF, and blended financing from the World Bank, having recently (2020) graduated from IDA and being considered as creditworthy for borrowing by the International Bank for Reconstruction and Development (IBRD).

While Moldova meets the criteria for receiving at least part of the proposed MFA in grants, the fact that it is not a Poverty Reduction and Growth Trust/International Development Association-only country, but a blended one, and the constraints in the EU budget for MFA grants argue in favour of using both loans and grants in the proposed operation. MFA loans are extended at highly concessional terms, with long maturities (of up to 15 years) and a low interest rate (the rate at which the EU, benefiting from its triple A rating, borrows the funds in the international capital markets).

### 3.2 Risk assessment

There are fiduciary, credit, policy and political risks related to the proposed MFA operation.

There is a risk that the MFA, which is not dedicated to specific expenses (contrary to project financing, for example), could be used in a fraudulent way. In general terms, this risk is related to factors such as the quality of management systems in the central bank and the ministry of finance, administrative procedures, control and oversight functions, the security of IT systems and the appropriateness of internal and external audit capabilities.

To mitigate the risks of fraudulent use several measures will be taken. First, the Loan Agreement and the MFA Grant Agreement will comprise a set of provisions on inspection, fraud prevention, audits, and recovery of funds in case of fraud or corruption. Also, the assistance will be paid to a dedicated account of the National Bank of Moldova.

Moreover, in line with the requirements of the Financial Regulation, in the context of the COVID-19 MFA package, the Commission services have carried out an Operational Assessment of the financial and administrative circuits of Moldova in order to ascertain that the procedures in place for the management of programme assistance, including MFA, provide adequate guarantees. The final report of the Operational Assessment, prepared by a consultancy company, was received in June 2020. The report notes clear progress in PFM systems and other financial circuits since 2015 when the last exercise was undertaken and concludes that the status of Moldova's financial circuits and procedures is deemed favourable for a subsequent MFA operation. Developments in this area will continue to be closely monitored also through the regular progress reports on PFM reforms produced by the EU Delegation in Chisinau.

The Commission is also using budget support assistance to help the Moldovan authorities improve their PFM systems and these efforts are strongly supported by other donors.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and the European Court of Auditors.

A second risk stems from the possibility that Moldova will fail to service the financial liabilities towards the EU stemming from the proposed MFA loans (default or credit risk), which could be caused by a significant additional deterioration of the balance of payments and fiscal position of the country or/and by unforeseen events. This risk is mitigated, however, by the fact that the EU's increased MFA would be part of an international package of official assistance led by the IMF that is supporting an adjustment and reform programme aimed at restoring fiscal and balance of payments sustainability through the implementation of a series of policy measures, included those agreed in the MoU between the EU and the Moldovan authorities and new additions thereto. Moreover, the risks for the EU budget are in the first instance covered by the EU's External Action Guarantee.

Another key risk to the operation stems from further developments in Ukraine, especially the intensification and prolongation of the war, as well as in the energy sector, and thus its impact on

the political stability in Moldova. This, in turn, could weaken the prospects of further necessary economic reforms. A derailment of the reform process could also put the objectives of the IMF-supported programme in jeopardy, endanger macroeconomic stability and prevent the effective disbursement of the EU's MFA.

Further, there are risks stemming from a possible weakening of the European and global economic environment (taking into account Moldova's dependence on the EU market) and further volatility in the energy market, which would have an important effect on Moldova's fiscal and balance of payments situation.

Having made a thorough assessment of the risks, the Commission services consider that there are sufficient grounds and guarantees to proceed with the proposed increase in the MFA to Moldova.

The Commission services will maintain close contacts with the authorities during the implementation of the macro-financial assistance in order to address quickly any concerns that may arise.

## 4. ADDED VALUE OF EU INVOLVEMENT

The Union's financial support to Moldova reflects the country's strategic importance to the EU in the context of the candidate country status granted on 23 June 2022, and the European Neighbourhood Policy. The MFA instrument is a policy-based instrument directed to alleviate short- and medium-term external financial needs. As a part of the overall EU package of assistance, it would contribute to supporting the European Union's objectives of economic stability and economic development in Moldova. By further reinforcing support to the authorities' efforts to establish a more stable macroeconomic framework and improve economic governance, the proposed increase in assistance would help improve the effectiveness of other EU financial assistance to the country, including the existing MFA and budgetary support operations.

The EU's increased MFA would also complement the standard EU aid packages mobilised under the NDICI. By supporting the adoption, by the Moldovan authorities, of an appropriate framework for macroeconomic policy and structural reforms, the EU's increased MFA would further enhance the added value and effectiveness of the EU's involvement through other financial instruments. The proposed increased MFA would further raise the EU's leverage on policy making in Moldova, helping steer the country towards a reform trajectory that should restore macroeconomic stability, increase energy security, address governance problems, and boost potential growth in the longer run.

## 5. CHARACTERISTICS OF MACRO-FINANCIAL ASSISTANCE

### 5.1 Exceptional Character and Limited Time-frame

The increased MFA operation would remain exceptional, aiming to support the restoration of a sustainable external finance situation for Moldova. It would run in parallel to the IMF ECF/EFF arrangement, with a staff level agreement adopted in December 2021.

The increased assistance is expected to be implemented in 2023 due to the widening of the external financing gap. The disbursement of the first additional instalment could take place in Q3 2023, and the second in Q4 2023. All disbursements are conditional on the IMF programme remaining on track and on a number of policy measures, agreed with the EU and added to the existing Memorandum of Understanding attached to the MFA operation. While in the short-term the country faces substantial balance of payments financing needs, the macroeconomic and structural adjustment programme agreed with the IMF and supported by the increased MFA is expected to produce a gradual strengthening of the balance of payments and fiscal positions.

### 5.2 Political preconditions and EU-Moldova relations

A pre-condition for granting MFA is that the eligible country respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and guarantees respect for human rights.

The Moldovan authorities remain aligned on a pro-reform and pro-European agenda, taking decisive steps towards the required structural reforms in line with the EU-Moldova Association Agreement, including its Deep and Comprehensive Free Trade Area, and the nine steps identified in the European Commission's opinion on Moldova's application for membership of the European Union.

In particular, Moldovan government remains strongly committed to delivering on its reform goals aimed at enhancing democratisation and the rule of law. A comprehensive reform of the justice sector is ongoing. The Constitution was amended to significantly improve the legal framework concerning the independence, accountability, and efficiency of the judiciary and judicial administration, in accordance with recommendations from the Council of Europe/Venice Commission. The pre-vetting of the candidates for the superior councils of judges and prosecutors is ongoing, their integrity being assessed by an independent commission established with EU and international support. Moldova is preparing the legislative framework for the reform of the Supreme Court of Justice and further vetting of top positions in the judiciary and prosecution. Cooperation with Moldova on key reforms has been satisfactory but due to strong political pressure to advance with reforms, there is a risk that speed could be prioritised over quality. Therefore, it remains crucial that reforms are fully in line with the Constitution, European standards, and the recommendations of the EU and other international partners.

Moldova has also shown commitment to address key challenges related to labour rights, in particular as regards informal employment and the need to strengthen the labour inspections system.

While deeply impacted by the ongoing Russian aggression against Ukraine, Moldova continues to actively support refugees fleeing Ukraine, hosting the highest number of refugees per capita among the neighbouring countries. Moldovan authorities have clearly condemned the Russian aggression and have aligned to the EU's declarations and positions in the international for a, despite a severe

gas and electricity crisis caused by Russia's weaponisation of energy and hybrid actions aimed at social and political destabilisation.

The latest rounds of parliamentary elections in July 2021 were, according to the Office for Democratic Institutions and Human Rights, well administered and competitive and fundamental freedoms were largely respected. Authorities have worked on addressing outstanding recommendations by the Office in areas such as effective campaign finance oversight, political bias of news outlets and the impartiality of the Central Election Committee, in accordance to the opinion of the Venice Commission. New members of the Central Electoral Commission were appointed in September 2021 and a new Electoral Code was adopted in December 2022.

In terms of media freedom, cases of intimidation and attacks on journalists have decreased and steps have been taken to strengthen the capacity of regulatory institutions (Audiovisual Council, Competition Council). Moldova's ranking in the World Press Freedom Index (under new methodology) has improved from 89 in 2021 to 40 in 2022, however, the concentration of media ownership and non-transparent media financing remains high.

EU-Moldova relations have entered a strategic phase with the Council decision to grant Moldova EU candidate country status on 23 June 2022, endorsing the Commission's Opinion of 17 June. The candidate status was granted on the understanding that a number of reform steps will be taken by the country (notably on the rule of law, justice reform and anti-corruption, as well as fundamental rights). The Moldovan government reacted swiftly by adopting an Action Plan for implementing the above-mentioned steps.

The Association Agreement (including the DCFTA), which was signed on 27 June 2014 and entered fully into force on 1 July 2016, and the Association Agenda remains the legal basis for carrying out further joint work on reforms and alignment of legislation in many areas. The new EU-Moldova Association Agenda 2021-2027 was adopted on 22 August 2022.

There is also a very close framework of bilateral relations between the EU and Moldova under the Association Agreement, which became even closer with the recognition of Moldova's European perspective and the candidate status granted by the European Council. The political pre-condition for considering an MFA may therefore be considered to be satisfied.[2]

In sum, Moldova has a democratic political system based on the rule of law and the respect for human rights and is taking steps to strengthen its democratic institutions, the rule of law including judicial independence, integrity and accountability, and address the serious governance problems.

### 5.3 Complementarity

The proposed increased MFA would continue to complement the assistance provided by other multilateral and bilateral donors in the context of the IMF-sponsored economic programme. Based

[2] A complete assessment of the satisfaction of the political criterion for MFA will be provided by the European External Action Service, as it is usual practice, at the time of the adoption by the Commission of the MFA proposal.

on the information currently available and assuming an IMF programme of a structure as described in the previous section, multilateral and bilateral donors other than the EU are expected to cover about 52% of the estimated external financing gap in 2022-24, ensuring reasonable burden-sharing. The EU's increased MFA would also continue to complement the standard EU aid packages mobilised under the NDICI. By supporting the adoption, by the Moldovan authorities, of an appropriate framework for macroeconomic policy and structural reforms, the EU's augmented MFA would further enhance the added value and effectiveness of the EU's involvement through other financial instruments. The proposed increased MFA would further enhance the EU's leverage on policy making in Moldova, helping steer the country towards a sustained reform trajectory to restore macroeconomic stability, address governance problems and boost potential growth in the longer run and in a sustainable manner.

### 5.4 Conditionality

Disbursements under the proposed augmented MFA operation would continue to be conditional on successful programme reviews under the IMF programme. In addition, the Commission and the Moldovan authorities would agree on a specific set of structural reform measures, to be added to the existing Memorandum of Understanding. These additional reform measures would support the authorities' reform agenda and complement the programmes agreed with the IMF, the World Bank and other donors, as well as the policy programmes associated with the EU's budgetary support operations, while being consistent with the ones already agreed for the underlying MFA. They would be consistent with the main economic reform priorities agreed between the EU and Moldova in the context of the Association Agreement, including its DCFTA, the Association Agenda, the enlargement process and Moldova's government priorities and other strategic documents.

The Commission will seek a broad consensus with the Moldovan authorities, so as to ensure their ownership and foster smooth implementation of the agreed conditionality. These policy conditions should address some of the fundamental weaknesses shown over the years by the Moldovan economy and economic governance system. The conditions will remain in line with the priority areas under the EU-Moldova cooperation, including the existing MFA, such as public and financial sector governance, the rule of law and fight against corruption, strengthening the business climate as well as energy sector reforms.

### 5.5 Financial Discipline

The proposed EUR 145 million increase in the MFA operation for Moldova is foreseen to be disbursed in two equal instalments to be released in 2023, within the ongoing MFA operation. The financial programming over the 2022-2023 period allows for a grant component of EUR 45 million to be financed from the available budget on budget line 14 20 03 01 "Macro-financial assistance (MFA) - grants". For the loan component of EUR 100 million, the required provisioning at a rate of 9% of the External Action Guarantee will be programmed under the Neighbourhood, Development and International Cooperation Instrument (NDICI), for a total amount of EUR 10.8 million (budget line 14 02 01 70 "NDICI – Provisioning of the Common Provisioning Fund").

## 6. EVALUATION AND COST-EFFECTIVENESS

This assistance is of exceptional and macroeconomic nature and its evaluation will be undertaken in line with the standard Commission procedures.

### 6.1 Evaluation

Ex-post evaluations of MFA operations are foreseen in the Multi-Annual Evaluation Programme of the Commission's Directorate-General for Economic and Financial Affairs. An ex-post evaluation of the proposed increased MFA to Moldova will be launched within a period of two years after the availability period has expired. A provision for the ex-post evaluation is included in the proposed Decision for the increased assistance, and also already features in the Memorandum of Understanding linked to the original MFA operation. Budget appropriations from the macro-financial assistance grant budget line will be used for this evaluation.

### 6.2 Achieving cost-effectiveness

The proposed increased assistance would continue to entail a high degree of cost effectiveness for several reasons:

i) Since the assistance would continue to be leveraged by that provided by the international financial institutions, with which, as noted, it would be closely coordinated, its ultimate overall impact could be very significant compared to its cost. Moreover, in negotiating additional specific policy conditions, the Commission will be able to draw on the expertise of those institutions, including the IMF and the World Bank, and to influence their conditionality as well in ways that will take into account the EU's views.

ii) Providing coordinated macroeconomic support to Moldova on behalf of the EU countries, the increased MFA would continue to be more cost efficient than the provision of a similar total amount of financial support by EU Member States individually.

iii) A substantial part of the proposed additional assistance would be provided in the form of loans, the budgetary impact of which is more limited.

iv) Finally, the Commission will aim at achieving synergies with other EU policies and instruments used to support the implementation by the beneficiary of the relevant measures (notably in the area of PFM).

**ANNEX**

EUROPEAN EXTERNAL ACTION SERVICE

**Head of Division**

**EURCA.5 - Georgia, Moldova, Armenia, Azerbaijan, Belarus**

**DIRECTORATE Russia, Eastern Partnership, Central Asia Regional Cooperation & OSCE**

Brussels, 13 January 2023

## ASSESSMENT ON DEMOCRACY, HUMAN RIGHTS, RULE OF LAW AND REFORMS IN THE REPUBLIC OF MOLDOVA

The Constitution of the Republic of Moldova (hereinafter Moldova) establishes a state of law governed by principles of the separation of powers, political pluralism, human rights and freedoms, observance of International Law and International Treaties. Today, people in Moldova generally enjoy all major fundamental rights and freedoms. However, the consolidation of democracy and the rule of law needs to continue.

Ever since the presidential elections in 2020 and parliamentary elections in 2021 Moldova's presidency, government, and parliament remain aligned on the same ambitious reform agenda, focusing on justice reform, anti-corruption, and efforts to deal with the legacy of vested interests. The required structural reforms in line with EU-Moldova Association Agreement and its Deep and Comprehensive Free Trade Area as well as the nine steps identified in the European Commission's opinion on Moldova's application for membership of the European Union are ongoing. Throughout its period in office, the government has shown strong commitment to deliver on its electoral promises, in line with its programme Moldova in good times 2021-2025. Government's long-term strategic vision of anchoring Moldova into the European integration process has been further spelled out in the new national development strategy 'European Moldova 2030' and in the **Government's Action Plan for 2021-2022**. While deeply impacted by the ongoing Russian aggression against Ukraine, Moldova continues to actively support refugees fleeing Ukraine, hosting the highest number of refugees per capita among the neighbouring countries. Moldovan authorities have clearly condemned the Russian aggression and have aligned to the EU's declarations and positions in the international fora. Russia's use of energy as a weapon deepened the crisis adding an additional challenge. Nevertheless, the Moldovan leadership has taken immediate steps to fulfil the obligations towards international development partners. This has allowed them to successfully meet the conditions for disbursement of EU financial support in 2022.

***Recent developments***

The Association Implementation Report will be published in January 2023 in advance of the EU-Moldova Association Council. The report expected to conclude that despite the lack of institutional capacity and human resources in public administration and a series of crises (the pandemic, the energy crisis, refugee inflows, and negative impact of Russia's invasion of Ukraine on Moldova's security, trade, and economic environment in general) Moldova is progressing on reforms in several key areas.

There is strong commitment to advance on implementation of a comprehensive **justice reform** with a comprehensive strategy for ensuring the independence and integrity of the justice sector for 2022-2025 and a corresponding action plan entering into force in December 2021. The strategy envisages, inter alia, an extraordinary evaluation of judges and prosecutors, and a revision of assigned powers in investigating and prosecuting high-level corruption. On 23 September 2021, Parliament adopted the amendments to the Constitution aimed at strengthening the independence of the judiciary and bringing in line with European standards several aspects concerning judges' careers. The amendments focus on the appointment of judges and the composition and selection process of the Superior Council of Magistracy. As part of further work on justice reform, the authorities continue with the pre-vetting of the new members of Superior Council of Magistracy and the Superior Council of Prosecutors, aimed at ensuring the integrity of the future Council members and, through their role of appointing new judges and prosecutors and conducting disciplinary proceedings, of the overall judiciary system.

With a score of 36, Moldova ranked 105th out of 180 countries in the Transparency International **Corruption** Perception Index in 2021, improving its position compared to 2020 and 2019. Moldova increased the annual budget of its anti-corruption institutions including the National Integrity Authority, the Criminal Asset Recovery Agency, and the Financial Investigation Unit. The implementation of the 2017-2023 National Integrity and Anti-corruption Strategy continued. In May 2020, Moldova joined the peer review programme of the OECD Anti-corruption Network for Eastern Europe and Central Asia (ACN) – the Istanbul Anti-corruption Action Plan (IAP).

Moldovan government continues its efforts to prevent and **fight corruption** and has announced zero tolerance for corruption. It has taken decisive and rapid action in this regard. The evaluation of the work of the Prosecutor General resulted in a criminal investigation, and he was subsequently suspended from the office. New amendments to the law on prosecution were adopted by the Parliament in second reading on 6 October 2022 to implement Venice Commission's recommendations. These amendments included clarification of the evaluation procedure for the Prosecutor General and the inclusion of the Prosecutor General in the Superior Council of Prosecutors.

According to the 2021 report of the United Nations Interregional Crime and Justice Research Institute on **illicit financial flows and asset recovery**, Moldova has invested substantially in policy reform measures to combat corruption, organised crime, and illicit financial flows. However, there are still significant opportunities to strengthen and streamline capacity and results in the seizure and confiscation of assets linked to illicit activity. After seven years of proceedings in the investigation of the **2014 bank fraud**, none of the major culprits are currently behind bars and the assets lost in the fraud have not been recovered.

Several new episodes of this case have been submitted by investigators to the court, including the case of former head of the National Bank Dorin Drăguţanu. However, the appeal case of fugitive oligarch Ilan Şor is still pending, despite certain progress during the last year, after the case was transmitted to the Appeal Court of Chisinau. In July 2022, an important achievement was the adoption of a law allowing the establishment of a mechanism of prosecution, trial, and conviction in absentia of persons evading prosecution. Also, in July 2022 Parliament approved amendments to the Criminal Code introducing an extended confiscation procedure expanding the legal possibilities to confiscate criminal assets. The new Government is committed to addressing this issue as a matter of priority.

Concerning **electoral standards and processes**, according to the OSCE/ODIHR assessment, the latest elections were well administered, competitive and fundamental freedoms were largely respected, although some shortcomings were also observed. The Central Electoral Commission composition has been renewed, observing a proportional representation of the Parliamentary majority and of the opposition on 7 December 2022, the new Electoral code was adopted in the Parliament, following the inclusive consultation process. On 21 October, the Venice Commission gave a positive opinion on the draft law, confirming that it takes account of previous recommendations by the Organisation for Security and Co-operation in Europe/Office for Democratic Institutions and Human Rights (OSCE/ODIHR).

While Moldova's ranking on the 2022 World Press Freedom Index (under new methodology) jumped by 49 places from 89th in 2021 to 40th in 2022, media remains polarised and continues to reflect the interests of political and economic forces. The new Audiovisual Council leadership elected in December 2021 monitors and sanctions media in a more objective and transparent manner, but its full efficiency has been hampered by insufficient human and technical capacity.

On 2 June 2022, Parliament adopted amendments to the Audiovisual Code, reversing non-transparent legislation adopted on 16 December 2020 under the previous government. The amendments reintroduce limitations on the broadcasting of military and political content from countries that have not ratified the European Convention on Transfrontier Television (including Russia). During the state of emergency declared on 24 February 2022, the Commission of Emergency Situation forbade retransmission of Russian military content.

The legal framework for **civil society** is finally stable, and there is a perspective for good engagement of CSOs with authorities. The Government programme envisages increasing the **transparency in decision-making** by reviewing the legislative framework on access to information. Consultations with the CSOs should be done in a systematic way, with an emphasize on the quality and not speed of the process.

***EU-Moldova relations***

The EU and the Republic of Moldova have developed a close political and economic relationship over the years, leading to the conclusion of the Association Agreement, including the DCFTA (AA/DCFTA), which was signed on 27 June 2014 and entered fully into force on 1 July 2016.

On 3 March 2022, Moldova submitted its application for EU membership in line with its government mandate to put Moldova 'on the European path'. On 17 June 2022, the Commission presented its Opinion

on the application. In response, on 23 June 2022 the European Council recognised Moldova's European perspective and granted it EU candidate country status. The Commission's Opinion presented nine steps that Moldova needs to address to further progress on the enlargement path. The European Council has tasked the Commission with monitoring Moldova's progress on the steps, and on alignment with all of the EU acquis, as part of the regular enlargement package in autumn 2023. Moldova swiftly developed an action plan for implementation of the nine steps. It was adopted on 4 August 2022 by the newly established National Commission for European Integration let by the President. A new mechanism to coordinate Moldova's actions and positions in the EU integration process was set up, and steps were taken to strengthen institutional capacities.

An Association Agenda for 2021-2027, setting out the list of priorities for joint work as well as for programming of EU financial support was adopted on 22 August 2022.

The 6th EU-Moldova Association Council took place on 28 October 2021 and the 7th EU-Moldova Association Council meeting will take place on 7 February 2023.

Since the beginning of the energy crisis in autumn 2021 and Russia's war of aggression against Ukraine, the EU has stepped up its support for Moldova's overall resilience. It has made available its entire toolbox of support measures, including macro-financial assistance, budget support, humanitarian aid, triggering the Union Civil Protection Mechanism and continuing bilateral and regional programmes. Additionally, to support Moldova in the uncertain regional context, the EU stepped up its cooperation and support to Moldova's security and defence.

***Conclusions***

Moldova has a democratic political system based on the rule of law and the respect of human rights and is taking decisive steps to strengthen its democratic institutions and address the requirements of its newly acquired EU candidate country status.

The reform commitment, and the initial steps already taken, coupled with a strong political will and leadership to make further progress in key reform areas in a transparent manner and in line with European standards, are a positive sign. In this context, the political preconditions for a macro-financial assistance programme are considered fulfilled.