

BLACK SEA TRADE AND DEVELOPMENT BANK



Moldova

Country Strategy

2019-2022

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Table 1: Basic Macroeconomic Indicators at a GlanceCountry Long Term Foreign Currency Sovereign Risk Rating: **S&P: N/A | Moody's: B3 | Fitch: N/A**

INDICATOR	2015	2016	2017	2018	2019	2020	2021	2022
Population (Million)	3.55	3.55	3.55	3.55	3.55	3.55	3.55	3.54
Avg Exch. Rate (MDL/ USD)	18.82	19.92	18.50	16.80	17.58	17.5	17,73	18.09
Inflation (CPI Avg.)	9.7%	6.4%	6.6%	3.0%	4.8%	5.6%	4.0%	5.0%
Average monthly wages (US\$)	245.00	255.22	308.11	383.67	n.a.	n.a.	n.a.	n.a.
GDP (MDL billion) current prices	145.75	160.81	178.88	192.5	210.3	229,4	249.3	272
GDP US\$ billion	7.75	8.07	9.67	11.44	11.96	13.10	14.06	15.04
GDP per capita (current US\$)	2,179.2	2,272.4	2,724.5	3,228.0	3369.7	3,750.8	3,908.3	4,014.0
Real GDP growth, %	-0.3%	4.4%	4.7%	4,0%	4.2%	3.8%	3.8%	3.8%
Official Unemployment (ILO, end of period) %	4.9%	4.2%	4.1%	3.0%	3.3%	3.3%	3.4%	3.4%
Industrial Production Growth, %	0.6%	0.9%	3.4%	3.7%	3.2%	4.0%	4.3%	4.5%
Agricultural Production Growth %	-13.4%	18.8%	9.1%	2.5%	1.0.	1.0.	0.5.	1.1.
Domestic Credit Growth %	11.1%	-5.2%	0.3%	0.3%	28.6%	n.a.	n.a	n.a.
Lending rate (average for non-bank clients, in national currency)	13.5%	11.8%	9.9%	8.5%	8.1%	n.a.	n.a.	n.a.
Consolidated Budget Balance/ GDP, %	-1.9%	-1.6%	-0.6%	-0.8%	-1.45%	-3.2%	-2.4%	-1.9%
Total External Debt*/ GDP	78.4%	76.8%	72.1%	65.2%	61.9%	n.a.	n.a.	n.a.
Public External Debt*/GDP	22.0%	22.0%	20.7%	16.9%	15.9%	n.a.	n.a.	n.a.
Private External Debt*/ GDP	56.5%	54.8%	51.4%	48.3%	46.1%	n.a.	n.a.	n.a.
Exports goods*- growth (y/y)	-17.0%	3.4%	19.8%	5.8%	5.7%	2.5%	7.9%	6.4%
Imports goods* - growth (y/y)	-253%	0.2%	21.7%	19.1%	3.9%	2.4%	8.0%	7.9%
Trade Balance */ GDP	-27.4%	-25.8%	-26.4%	-28.8%	-27.8%	-25.9%	-26.9%	-28.5%
Current Account* / GDP	-6.0%	-3.5%	-5.7%	-10.6%	-10.7%	-6.3%	-6.4%	-6.5%
Forex reserves* (excluding gold) USDm	1,756.7	2,203.2	2,800.2	2,992.2	3,056.0	3,200.0	3,300.0	3,600.0

Last updated on February 18, 2020 **NBM, international accounts' data*

Sources:

Data from Moldovan Department for Statistics and Sociology; National Bank of Moldova; IFS, IMF, Oct 2019;

World Economic Outlook Database, IMF (Apr 2019)

Projections from EIU CountryData (Latest update - 30 July 2019)

Items 15-17 – October 30, 2019; Items 18-21 – January-September 2019

I. Recent Developments and Outlook¹

Since the early 2000s, Moldova has made significant progress in achieving inclusive growth, averaging 5% annually, and reducing poverty, which declined from 26% in 2007 to 11% in 2014. Besides the significant decrease in poverty, inequality measured by the Gini coefficient also declined from 0.3 to 0.23 between 2007-14.

Moldova's ranking for control of corruption on the World Bank Group's Worldwide Governance Indicators (WGI) declined from 33 in 2008 to 17 in 2015, a score not yet fully reflecting a massive banking fraud in 2013-14 that led to losses of about 12% of GDP.

In Moldova, improving economic governance, or strengthening the rule of law and accountability in economic institutions, is the key pathway to de-risking private sector investment for job-creation. It includes measures to combat corruption, enhance transparency, secure property rights, and develop stable financial and legal institutions.

a. Economic structure and Demographic trends

Moldova's economy is small with a nominal GDP of about \$11,3 billion (2018) and a population of around 3.6 million. Per-capita GDP is about \$3,367 in nominal terms – the lowest in Europe.

The agricultural sector in Moldova accounts for roughly 15% of gross value added and employs around one third of the working age population.

Due to the narrow focus of main export goods – fruits and beverages, mainly wine, account for 21% of exports – and the concentration in export markets – Russia and Romania accounted in 2017 for 18% and 17% of exports, respectively, although recently Romania has become main export destination while Italy and Germany have likely overtaken Russia as main export destinations, Moldova's growth is synchronized with growth in its main trading partners.

Roughly 30,000 people leave the country every year, with estimates suggesting that up to one-third of the population, or 50% of the labor force, is living abroad. According to the National Bank of Moldova, and consistent with the large number of migrant workers, remittances account 16.8% of GDP for the H12019.

Migration of this magnitude adds to an already binding labor force shortage in nearly every economic sector and is aggravating the already low employment participating rate of just 43%. Labor force shortages have already manifested through an increasing number of economic migrants from poorer Central Asia former Soviet republics. This development, although the migrants are Russian speakers, creates integration costs and puts pressure on weak public services.

The resulting population decline of around 1.5% annually is likely to push wages in the private sector higher and also adds to the country's economic, fiscal, and social fragility.

b. Performance 2015-2018

i- Real Sector

Real GDP grew by 4.7% in 2017, supported by a favorable external economic environment. Exports of goods and services continued to expand in 2017 on the back of growing exports to the European Union (EU).

¹ Data sources: National Bureau of Statistics of the Republic of Moldova, National Bank of Moldova, Ministry of Finance, IMF, World Bank, EBRD, and BSTDB calculations.

Rising remittances and real wages have supported an increase in private consumption, with household consumption increasing by 5.3%. Gross fixed capital formation rebounded from negative growth in 2015-16, and expanded by 5.2%. Agricultural output increased by 7.9%.

In US\$ terms, GDP was up 17.1% in 2018, to US\$ 11.3bn.

Moldovan economy was up 4.4% y/y and 5.8% y/y in 1Q19 and 2Q19 respectively, resulting in 5.2% y/y growth in 1H19. On the production side, main positive contribution to growth in 1H19 came from construction (+26.7% y/y) and trade (+5.7% y/y), while contraction was recorded in agriculture (-3.4% y/y) and public administration (-0.8% y/y). On the expenditure side, gross fixed capital formation (+26.0% y/y) was the main driver, followed by household demand (+1.8% y/y) while negative contribution came from net exports.

Robust growth continued in 2019, GDP was up 5%.

The lack of diversification in the economy is a key constraint holding back medium-term growth prospects. Agriculture's significant weight in economic value creation leads to volatility of growth and low overall productivity. Population ageing and the outflow of migrants are also key challenges that dampen the economy's long-term growth potential.

ii- Public Sector and Fiscal Policy

The fiscal deficit was lower than projected, as delays in external financing and the reorganization of ministries led to under-execution of spending.

In 2018 budget revenues were up 8.6% to 30.1% of GDP, while expenditures were up 9.3% to 31.0% of GDP. As a result, budget deficit widened to 0.8% of GDP, still a very reasonable figure within the available fiscal space.

Revenues were driven by increases in VAT (+10.3%), compulsory social contributions (+10.5%), and income tax (+20.9%), while major negative contribution came from drop in excise receipts (-4.5%) and grants (-61.6%). Expenditures were driven up by spending on social protection (+10.1%), economy (+21.9%), and education (+8.1%), while savings were recorded in spending on various state services (-2.2%).

In 2019 Budget revenues in Moldova were up 8.5% to MDL 62.9bn (30.2% of GDP) while expenditures were up 10.7% to MDL 66.0bn (31.7% of GDP). As a result, budget balance went from a deficit in 2018 of 0.83% of GDP to a deficit of 1.45% of GDP in 2019.

Revenues were driven by higher VAT receipts (+8.4%) and compulsory social security contributions (+7.3%).

Expenditures were driven due to spending on social protection (+11.8%) and wages (+13.9%).

iii- Public Policy

In September 2019 Moldova completed the Fourth and Fifth Reviews of the IMF's Extended Credit Facility and Extended Fund Facility arrangements, signed in November 2016, which remain an important facilitator of reforms. To satisfy program conditionality's, significant strides were made in a number of areas, including steps to instill shareholder transparency in the banking sector, improve the regulation of the non-banking sector and adjust the electricity tariff-setting methodology.

The IMF supported reform agenda focuses on policies to:

- ***maintain progress in fiscal adjustment***, while opening space for priority investment and well-targeted social assistance;

- **support the economic recovery**, while containing inflation pressures in the face of large cost-push shocks;
- **ensure stability** in the financial system and **foster a resumption of bank lending**; and
- **raise the economy's potential growth rate** by implementing structural reforms to stimulate private investment, strengthen competitiveness, and facilitate export led growth.

Pro-business tax measures have been adopted

The package of business reforms was introduced in 2018 and 2019 to lower the regulatory and tax burden on businesses. Progressive personal income tax rates of 7% and 18% were replaced by a single flat rate of 12%. The employer social contribution rate was lowered from 23% to 18%. A capital amnesty introduced by the package allows for registration of financial means and property without the need to provide documents attesting their origin until the end of 2018, conditional on paying 3% of the asset value. This provision does not apply to public officials.

The new Government introduced amendments to the 2019 Budget and additional measures that will reverse the effects of the 2018 fiscal package on the government's public finances and reestablish fiscal prudence. The fiscal plans for 2020 envisage an increase in revenue in order to finance development and social spending.

iv- Monetary and Financial Sector

Monetary Policy

Following rapid downward trend in 2016, inflation picked up once again in 2017, reaching 7.9% y/y in October 2017. However, inflation slowed from an average of 6.6% in 2017 to a more manageable 3.7% in the first nine months of 2018 and touched 0.9% y/y in December 2018, well below National Bank of Moldova's target of 5.0% (+/-1.5%). Downward pressure to inflation came from price trends in services (-2.3% y/y in December 2018), while upward pressure came from food (+2.2% y/y) and non-food goods (+1.7% y/y) prices. Core inflation has also been in downward trend in 2018, retreating from 5.5% in December 2017 to 2.3% in December 2018.

Headline inflation slowed in 2018, as food and fuel inflation decelerated significantly, while prices of regulated items fell due to downward adjustments of energy tariffs. These effects gradually faded out in 2019 and inflationary pressures have started to build up since early 2019, against the background of the expansionary fiscal stance and pass-through from the leu's depreciation. CPI inflation reached 7.1 percent in late 2019. Over the medium-term, inflation is expected to remain anchored at 5 percent

National Bank increased its basic rate from 6.5% to 7.00% in June 2019 and then further to 7.5% in late July 2019. In December 2019 the basic rate was cut from 7.5 to 5.5 percent.

Banking Sector

Banking sector total assets were up from MDL 79.5bn in 2017 to MDL 83.1bn in 2018, while as a ratio to GDP they were down from 45.0% in 2017 to 43.8% in 2018. They went further up from MDL 83.1bn in 2018 to MDL 90.6bn in 2019, and as a ratio to GDP they were up from 43.2% in 2018 to 43.7% in 2019. Total asset growth in nominal MDL terms was driven by "loans and advances" (+19.1% y/y)

In nominal MDL terms, NPLs were down 22.9% y/y in 2019 to MDL 43.4bn. NPL ratio continued to decline and reached 8.5% in 2019, following peak of 18.4% in 4Q17.

Major governance reforms have advanced in the banking sector.

The financial sector's legal, regulatory and supervisory framework has been further strengthened.

A new anti-money laundering (AML) law was adopted in December 2017, by which was established the obligation of banks to apply the risk-based approach in the process of identifying, assessment and mitigate money laundering and terrorist financing identified risks.

In 2018 entered in to force the new framework providing the Basel III principles. The Law on banking activity and secondary regulatory framework transpose the provisions of the EU's CRDIV/CRR package (Directive 2013/36/EU and Regulation 575/2013), covering new capital adequacy requirements and provisions on capital buffers, credit/market/operational/settlement risk, large exposures, corporate governance and risk management.

All banks were instructed to conduct self-assessments of corporate governance practices. Procedures for share cancellation, issuance and sale of newly issued shares were amended in December 2017 to enable the removal of unfit shareholders.

The government published a report on the findings of the independent investigator of the 2014 bank fraud and in March 2018 submitted it to the Anti-Corruption Prosecutor's Office which, in turn, developed a strategy to recover assets containing time-bound actions. Following amendments to the shareholder removal framework, the NBM will apply legal enforcement actions as needed vis-à-vis shareholders, and take decisions that will allow it to remove any unfit shareholders in domestic non-systemic banks.

The single Central Securities Depository (single CSD), responsible for the registration, book-keeping and settlement of financial securities issued by legal entities, became operational on July 31 2018. At the initial stage, the single CSD has dealt merely in securities issued by the Ministry of Finance and financial instruments of the National Bank of Moldova. On May 1, 2019, the single CSD became fully operational, supplementing its existing functionalities with operations with corporate securities of joint stock companies. The new mechanism of securities' bookkeeping and settlement, provided by the single CSD, will ensure a high level of transparency, security and efficiency of securities transactions.

The Deposit Guarantee Fund expanded its coverage to include legal entities and the deposit coverage limit was raised from approximately US\$ 1,100 to US\$ 2800. As of January 2020, the legal framework entered in force according to which the banks contributions are risk-based calculated, and conditions under which the NBM or the Ministry of Finance could finance the guarantee fund were clarified.

In view of developing a macroprudential supervision framework, the new macroprudential authority at the national level – National Financial Stability Committee was created. In this respect, the Law on the National Financial Stability Committee (No. 209/2018) was adopted by the Parliament on 12 October 2018 and entered into force on 16 December 2018. During 2019, there were organized 4 meetings of the Committee and issued 3 recommendation to national authorities.

Also, in the process of consolidating its macroprudential supervision function, during the period 2018-2019, the National Bank of Moldova has implemented new macroprudential instruments - capital buffers for banks, in line with the European framework, which aim to enhance the banks resilience to systemic risks.

The sale of a 39.2% stake in Victoriabank (VB, third largest bank) to Banca Transilvania in January 2018 (Banca Transilvania and EBRD have jointly been holding 72,19% since May 2018), the acquisition in October 2018 of 41.09% stake in Moldova Agroindbank (largest bank in Moldova) by a consortium of fit and proper investors (EBRD and the private equity firms AB Invalda INVL and Horizon Capital which have jointly been controlling 48.37% according the usufruct contract since February 2019), as well as the transfer of 77.62% ownership in Moldindconbank (MICB) to the Bulgaria-headquartered Doverie United Holding, are steps towards transforming the banking sector.

The new shareholders have launched a process of modernization of the banks by, inter alia, introducing sound corporate governance as well as risk management standards and practices.

According to the provisions of law, the NBM shall ensure the ongoing compliance of the shareholders of the banks with the requirements of law and it may impose sanctions and/or appropriate sanctioning measures in order to end the given situation. This process of monitoring and transparency of the ownership structure of banks is continuously performed by the NBM.

To mitigate migration of risks from the banking sector, more needs to be done to strengthen regulation and supervision of non-bank financial institutions. The law on non-bank credit organizations which sets the regulatory framework came into force in March 2018, and introduces following new requirements: (i) minimum capital requirement of 5% of assets, and (ii) if the book value of assets exceeds 25 million lei (approximately US\$ 1.5 million) will have independent external audit of financial statements. The registry of non-bank organizations will be held by the National Commission for Financial Markets.

Loans and deposits at commercial banks

Banking sector loans in Moldova were up 13.9% y/y in 2019 to MDL 40.4bn, driven by local currency loans (+23.4% y/y), while FX loans were down (-1.3% y/y). As a result, loan dollarization ratio retreated from 38.5% in 2018 to 33.34% in 2019. Deposits were up 7.7% y/y to MDL 68.4bn, with local currency deposits increasing 8.0% y/y while FX deposits in MDL terms, increasing 7.3% y/y. As a result, deposit dollarization retreated to 40.9% in 2019.

Loan to deposit ratio remained flat compared to 2018 at 5.0%, which is very low considering the financing and investment needs of Moldova's companies.

v- External Sector

*Foreign Trade**

Exports from Moldova increased 5.8% y/y to US\$ 1,975.05 mln in 2018 while imports were up 19.1% y/y to US\$ 5,269.05 mln, leading to US\$ 3,294.0 mln trade deficit (or 28.8% relative to GDP). Exports were driven by electrical machinery and equipment that amounted - US\$ 235.86 mln (+31.6% y/y), agri-food products - US\$ 1,108.11 mln (+2.2% y/y), and furniture - US\$ 140.18 mln (+18.7% y/y).

Imports were driven by mineral products amounting to US\$ 1,007.99 mln (+30.2% y/y), machinery - US\$ 853.10 mln (+26.5% y/y), and products of the chemical industry - US\$ 647.12 mln (+13.1% y/y).

The expansion of Moldova's international trade was driven chiefly by increased cross-border flows with EU countries under the supportive framework of the Deep and Comprehensive Free Trade Agreement (DCFTA) signed in 2014. The exports to EU was 60.7 % from total in 2018 (+2.1 p.p compared to 2017), by 9% higher against 2017.

The main export destination, in 2018, remained Romania –US\$ 398.73 mln (+15.0% y/y), followed by Russia – US\$ 218.49 mln (-14.1% y/y), Germany – US\$ 190.95 mln (+35.6% y/y), and Italy – US\$ 154.57 mln (+62.8% y/y).

In the 9 months of 2019, exports from Moldova increased by 5.2% to US\$ 1447,35 mln, compared with 9M2018, while imports increased by 3.6% reaching US\$ 3935,38 mln, leading to trade deficit of US\$ 2488,03 mln (+2,6% 9M19/9M18). Exports were driven by electrical machinery and equipment that amounted - US\$ 223,67 mln (+26,7%), while major negative contribution came from decline in exports of fats and oils- US\$ 39,84 mln (-19,6%), textiles - US\$ 43,40 mln (-20,6%), The growth imports were driven by electrical machinery and equipment amounting US\$ 657,14 mln (+7,4%), agri-food products - US\$ 576,94 mln (+5.8%), products of the chemical industry - US\$ 509,83 mln (+4,5%).

From the geographical perspective, while the exports of goods to the traditional markets – EU (with a share of 56,6% from total) and CSI (share of 20,8%) declined by 3,7% and 1,6%, respectively, the

exports to „other countries” (share of 22.6%) recorded a growth of 49,1%, a significant increase being particularly registered by exports to Turkey (by 3.3 times as against the 9 months of 2018).

By country-partner, Romania continued to dominate, exports to this country amounting US\$ 269,31 mln (-6,5% 9M19/9M18), followed by Russia – US\$ 171,69 mln (+7,6%), and Germany – US\$ 163,45 mln (+14,8%).

*Balance of payments **

The current account deficit widened from US\$ 555.32 mln (or 5.7% of GDP) in 2017 to US\$ 1 211.37 mln or (10.6% of GDP) in 2018. The deterioration of the CAB was generated by the increasing deficit of the trade in goods (+28.7%).

The services surplus went up by 16.1%, reaching US\$ 361.62 mln, and its ratio to GDP amounted 3.2%. The primary income balance reached US\$ 548.56 mln, by 1.6% lower as compared to 2018, and represented 4.8% as a ratio to GDP. The surplus of the secondary income increased by 3.4% as against the 2017 and amounted US\$ 1 172.45 mln.

The volume of remittances received by the residents of the Republic of Moldova in 2018 reached US\$ 1,743.31 mln that represents 15.2% as a share of GDP (-0.9 p.p y/y).

During the 2018 current account deficit was financed mainly by the net inflow of currency and deposits (US\$707.7 mln), and trade credits and advances (US\$ 357.72 mln), and net FDI (US\$ 269.63 mln).

Current account deficit in Moldova widened from US\$ 835.29 mln or 10.0% of GDP in 9M18 to US\$ 938.26 mln or 10.6% of GDP in 9M19. Traditionally, the deterioration of the CAB was generated by the increasing of the deficit of the trade in goods (+2.8%), even though there is a larger increase in exports (+5.7%) than in imports (+3.9%) as compared to the first nine months of 2018; additionally, it was recorded a decrease in the secondary income surplus (-4.2%).

In the first 9 months of 2019 remittances increased by 3.2% up to US\$ 1,330.15 mln representing 15.1% from GDP, while 9M2018 it held a share of 15.5% from GDP. The remittances growth is generated by the increase of inflows from the EU (+ 16.7%) and other countries (+0.4), while the flows from CIS decreased by 11.1%.

The Current Account deficit in 9M2019 was financed mainly by the net inflow of direct investments (US\$ 485,15 mln), the net inflow of currency and deposits (US\$425,59 mln) and by the reserve assets (US\$ 22,12 mln).

Exchange rate and reserves

Moldovan Lei has remained slightly depreciated against US\$ since early 2018. In the previous year MDL gained value against US\$, with USDMDL appreciating from 19.98 to 17.10 (-14.4%). Starting with 2018, however, the exchange rate has fluctuated within a range of 16.37-18,21. As of end of 2019, exchange rate was at 17.21.

As net financial flows were above the current account deficit in 2018, reserves increased in 2018. International reserve assets of the National Bank of Moldova (NBM) increased from US\$ 2.2 billion at the end of 2016 to US\$ 3.0 billion at the end of 2018. As of end of September 2019 reserves decreased by 206% y/y at US\$ 2,9bn. covering 5.4 months of imports, 142.4% of short-term external debt and 85.6% of M2.

*Foreign debt**

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**Data from NBM, international accounts' data*

c. Forecast for 2020-2022

Challenges

The World Bank said Moldova's gross domestic product growth in the next few years is expected to remain well below the 4.6% average achieved in the last decade, undercut by weaker foreign and domestic demand. The country's GDP is projected to grow by a real 3.8% in 2020, and 3.8% in 2021.

A growth slowdown in the EU could depress remittances and exports, while international energy and food price spikes could accelerate inflation. Growth was powered largely by consumption, and poverty reduction mainly by the flow of remittances and increases in pensions. Since neither are expected to continue indefinitely, future growth and poverty reduction will need to be driven increasingly by private sector-led job creation. Moreover, debt-related difficulties could be triggered in case either remittances, grants or FDI flows would prove slow to materialize.

Opportunities

Moldova made progress in implementation of reforms in recent years, especially in areas of trade liberalization and tariff reform.

Opportunities for financing new operations exist in areas with remaining challenges:

- Infrastructure and energy suffer from poor financial and operational performance.
- The power sector underwent significant reforms, but inter-company energy sector debts need restructuring.
- The private corporate sector is still underdeveloped, but potential for growth is strong.
- The banking system has grown in recent years, but further progress in transparency and corporate governance are necessary. Furthermore, lending capacity is limited, not satisfying either quantitatively or qualitatively the financing needs of the real economy.

II. Overview of BSTDB Portfolio

The Bank has made significant efforts to identify suitable operations for Bank financing. When necessary, BSTDB financing has been made available via the financial sector.

Table 2: Current BSTDB Portfolio - BoD Approved Operations – September 30, 2019

in EUR

#	Operation	Date of BoD approval	Amount	Outstanding
1	Balkan Accession Fund	10.08.2006	217,002	23,537
2	Emerging Europe Accession Fund C.V.	25.09.2009	1,173,667	973,677
3	Europe Virgin Fund	29.04.2011	5,521,627	5,226,382
4	Equity Participation in ADM CEECAT Recov	21.07.2011	94,807	36,070
5	Glass Container Prim II	02.12.2011	2,755,074	1,093,611
6	Total Leasing & Finance 2	18.09.2015	4,500,000	1,222,222
7	Orhei - Vit	22.09.2017	7,284,000	7,284,000
8	Express Leasing - Micro & SME Financing	05.09.2018	2,755,074	1,377,537
9	Trans-Oil	18.05.2018	26,173,202	19,411,792
10	TransOil Pre Export Finance	20.09.2019	18,367,160	0
Total			68,841,613	36,648,828

III. Review of Country Strategy

Independent Evaluation of 2015-2018 Country Strategy for Moldova

Evaluation Office, June 2019

The current evaluation was performed by the Bank's Evaluation Office as per the respective Evaluation Policy. It reveals the performance of the Bank's 2015-2018 Country Strategies, to provide accountability to the Board of Directors and Board of Governors as well as facilitate the decision-making on the eventual update of the country strategies.

The evaluation of the respective country strategy compares the stated targets with actual results as of end of 2018, and provides a country-oriented overview and conclusion. The 2015-2018 Country Strategy was approved by the Board of Directors, reflecting an independent evaluation of the implementation of the BSTDB's earlier strategies, conducted by the Evaluation Office. It was aligned with the objectives of the Bank's Business Plan 2015-2018 and was therefore evaluated in that context.

Overall, the implementation of the Country Strategy fulfilled the quantitative targets but came short in investing in one of the priority sectors – Energy. Hence, the evaluation rated the performance as Satisfactory. A more comprehensive overview is presented in the table below.

Post Evaluation of 2015-2018 Country Strategies				
2015- 2018 TARGETS			RESULTS	
Country Strategy	Sectors/ Priorities	Target: Signed number/ (EUR million)	Actual: Signed number/ (EUR million)	Evaluation Summary
Moldova	<p><i>1. Financial sector: intermediaries SME focus, trade finance, leasing, equity / funds. Municipal finance.</i></p> <p><i>2.Manufacturing: Transport routes, Commercial and residential real estate</i></p> <p><i>3. Energy and infrastructure-priority: energy efficiency and renewable, rehabilitation, expansion;</i></p>	N/N/41.5	5/47,036,684	<p>1. Volume: 113%</p> <p>2. Sector coverage: Total-leasing and Finance 2 (FI) Orhei-Vit (Consumer staples) Trans-Oil Pre-Export Finance Facility (3) (Consumer Staples) Express Leasing- Micro and SME Financing (FI)</p> <p>3. Conclusion The Bank covered its priorities/sectors relatively well, with the exception of Energy.</p>

IV. Priorities for 2019 – 2022

Government Priorities

Moldova's National Development Strategy (NDS) (2012-20), approved in 2012, describes the country's medium-term development priorities. It calls for a shift from the current consumption-based paradigm towards a new growth model based on expanding investments, increasing competitiveness and productivity, promoting export industries, and developing a knowledge-based society.

With the objective of "... ensuring qualitative economic growth and poverty reduction...", it lists eight national priorities:

- (a) aligning education with labor markets;
- (b) increasing public investment in roads;
- (c) promoting financial sector competition;
- (d) improving the business climate;
- (e) raising energy efficiency, including the use of renewables;
- (f) ensuring fiscal sustainability of the pension system;
- (g) enhancing the efficiency and quality of justice, including combatting corruption; and
- (h) fostering the competitiveness of agri-food products and sustainable rural development.

Strategic Directions

The Government Action Plan for 2020-2023 was approved on the 11th of December 2019 (https://gov.md/sites/default/files/document/attachments/pag_2020-2023.eng_0.pdf).

The government has set as its objective the achievement of the following targets at national level by 2023: 1) increase of the gross domestic product by 8.3% in 2023; 2) increase of national public budget expenditures by 56.7% by 2023, compared to 2019, of which: - expenses for education - by 63.3%; - health expenses - 61.5%; 3) increase of public investments in infrastructure by 55.8% by 2023, whose cumulative value will amount to over 54 billion lei; 4) average salary increase per economy by 52.7% by 2023, compared to 2019, reaching 11200 lei; 5) salary increase in the budgetary sector by 58.6% by 2023, compared to 2019, reaching a level of 12700 lei

The Government will support the sustainable economic development, by increasing of the export of products by 9.4%; creation of 300 new businesses and 900 jobs through state programs to support small and medium enterprises; 3 new approved programs in the sector of small and medium-sized enterprises; the construction of the natural gas transmission pipeline of Romania and the Republic of Moldova on the direction Iași – Ungheni – Chisinau, the construction of the 400kV-Moldovan Vulcănești unit and a corresponding back-to-back station carried out at 80%; 5 road infrastructure projects carried out; 90 km of the R1 road Chisinau-Ungheni rehabilitated; 9) 55 km of the R16 Bălți – Făleşti – Sculeni road rehabilitated.

Areas for BSTDB Financing:

BSTDB will focus in the next four years on providing support for the implementation of the Government program and priorities, while responding to market demand. Under the given circumstances, BSTDB will focus on supporting existing enterprises especially to facilitate export

growth and diversification. The financial support will be in the form of medium to long term corporate loans, short to medium term pre-export financing facilities, SME credit lines, or other investment and working capital facilities. The Bank shall also seek co-financing opportunities with IFIs, public sector institutions and private partners.

Based on the 2019-2022 BSTDB Business Plan, the Bank would expect to sign over the four year period new operations ranging from € 100 million up to € 140 million, which translates in a number of 2-4 operations per year of about €20-40 million each.

Trade Finance, SMEs and Financial Institutions

Following the important reforms in the banking sector to ensure financial stability and restore confidence, BSTDB will allocate financial resources through selected financial institutions to support the development of the financial sector and strengthen the lending capacity, contribute to the corporate development of bank and non-bank financial institutions and support emerging SMEs.

In product terms, the Bank will consider the possibility to:

- Provide standard lending and trade finance facilities involving several local banks including through establishing new relationships and widening the partner base.
- Provide lending facilities to selected and creditworthy leasing/microfinance companies to support development of non-bank financial sector.
- Develop and introduce new products and programs such as municipal or energy efficiency financing to expand the range of financial instruments.

As a supplementary activity, if necessity arises, consider options to channel resources through financial intermediaries for on lending to economic sectors/activities which would be outlined as government priorities during the strategy period. BSTDB will target bank and non-bank financial institutions with transparent shareholding structures and strong financial profiles. During the strategy period at least 3 financial intermediaries shall be added to the portfolio.

The Bank may explore possibilities for Local Currency Financing, should it prove to be a cost-efficient source of financing via local bond issues, thus contributing to capital market development.

Maintain relationship with other IFIs, coordinate activities and share experiences given the opportunities of the market.

Agriculture, Manufacturing and Enterprise Sector

The needs for modernization and expansion of capacities are still high. Similarly, potential exists with respect to development of transport routes and capacity, including equipment, machinery and means of transportation. Opportunities also exist with respect to further development of industrial parks. Remain as priorities export oriented companies and as industries: agriculture, real estate and retail.

Priorities in the Infrastructure sector

Potential opportunities, which may be of interest for BSTDB, if the Government could indicate its interest and willingness to support BSTDB involvement, may arise in direct support of the Government's overall Road Sector Program, and in energy distribution and interconnectivity. Another area with potential for development is represented by municipal services.