MOLDOVA

Table 1	2022
Population, million	2.5
GDP, current US$ billion	14.5
GDP per capita, current US$	5714.4
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.3
Upper middle-income poverty rate ($6.85)[a]	14.4
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	107.8
Life expectancy at birth, years[b]	68.8
Total GHG emissions (mtCO2e)	14.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

The Moldovan economy has endured severe repercussions stemming from Russia's invasion of Ukraine and a surge in inflation. By the first quarter of 2023, diminishing purchasing power led to economic contraction, nevertheless, inflation is gradually abating. The near-term outlook hinges on the unfolding invasion of Ukraine, commodity-energy prices, and weather conditions. In contrast, the longer-term outlook relies on realizing unfinished structural reforms and Moldova's pace toward EU accession.

Key conditions and challenges

Moldova has been severely affected by the spillover effects of Russia's invasion of Ukraine, which has led to energy and refugee crises. Despite concerted efforts to mitigate these crises through robust fiscal measures and swift monetary policies, private consumption was stifled by dwindling household incomes and uncertain financial conditions. As a result, the economy plunged into recession in 2022.

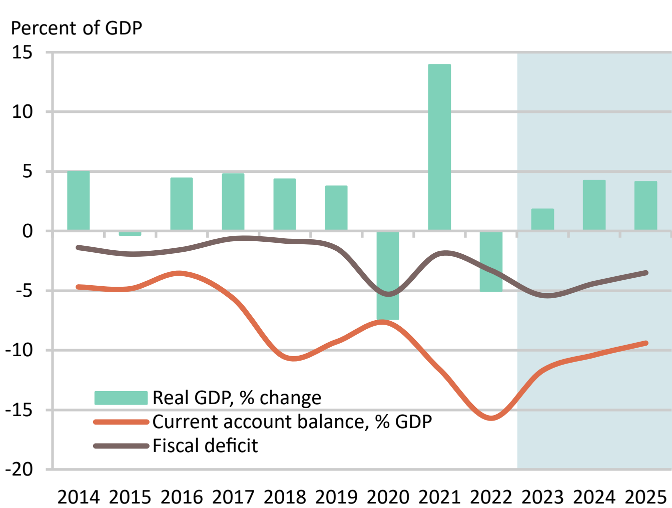
The medium-term outlook will be influenced by the government's ability to counter the erosion of households' purchasing power while maintaining momentum in the reform program. Key challenges include sluggish productivity growth, structural and governance deficiencies, a sizable state-owned enterprise presence, restricted competition, an imbalanced business environment, and tax distortions. Heightened risks of extreme weather events and energy shocks remain prominent.

Persistent inequality has hindered access to public services and dampened resilience and intergenerational mobility. Furthermore, the full impact of Russia's invasion and energy supply on the Moldovan economy in 2023 remains uncertain. The potential increase of energy costs in the latter half of 2023 might necessitate a reallocation of funds or additional financing to mitigate the impact on households. Moreover, elevated input costs and arid weather conditions may further diminish agricultural yields, amplifying inflationary pressures and dampening economic activity. Against this backdrop, the reduction in poverty observed in 2021 is likely to have been short-lived, as Moldova grapples with the repercussions of Russia's invasion of Ukraine, affecting vulnerable Moldovans due to high food and fuel prices. In the current geo-economic environment, Moldova's long-term outlook relies on aligning its reform agenda with EU accession and the pace of reforms aimed at enhancing productivity. These reforms encompass bolstering competition and public sector asset management, improving and digitalizing the business climate, improving public finance efficiencies, and a climate-resilient economy.

Recent developments

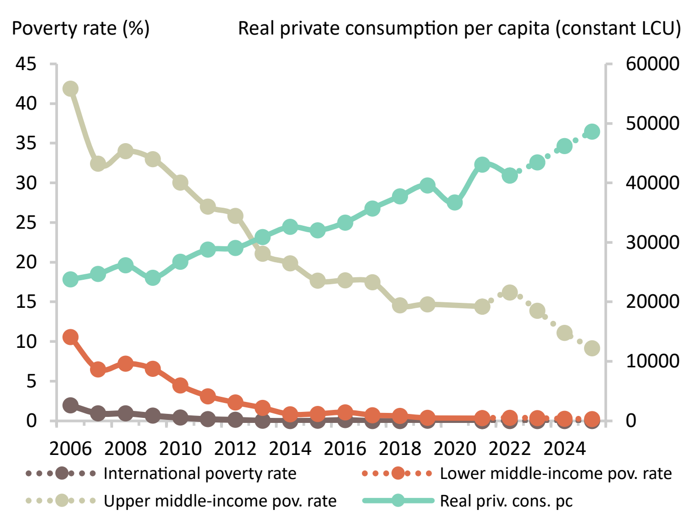
In the first half of 2023, GDP contracted by 2.3 percent. This was driven by a 4.7-percentage-point dip in private consumption, attributed to elevated prices and diminished purchasing capacity. Restocking efforts yielded a positive impact (1pp), and investments experienced a reduction (-0.8 pp), possibly due to a lenient monetary approach and heightened risks. Net exports added 2.3 percentage points as imports were muted in line with depressed domestic demand. On the supply side, the energy and trade sectors emerged as primary growth inhibitors, sapping 2.5 percentage points. Amid a subdued regional climate, manufacturing fell 1.3 percentage points,

FIGURE 1 Moldova / Actual and projected macroeconomic indicators



Source: World Bank, based on national statistics.

FIGURE 2 Moldova / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: see Table 2.

while IT and communications contributed 0.5 percentage points. Agriculture struggled with last year's drought and input costs (-0.1pp).

Moldova's external position improved, but elevated energy costs and decreased exports pose vulnerabilities. Strengthened by robust service exports (transport and IT) and positive developments in primary and secondary accounts (remittances increased by 11 percent), the current account deficit diminished by 2.6 percentage points, reaching 16.1 percent of GDP. Financing primarily relied on cash and deposits. External debt, however, escalated to 66.6 percent of GDP.

The inflation rate is on a descending trajectory, reaching 18.7 percent between January- July. In the first half of 2023, the fiscal deficit expanded to 4.7 percent of GDP, propelled by a 20 percent rise in expenditures driven by interest rates and social spending. Revenues lagged (13 percent), as economic activity is subdued. Public debt increased by 2 percentage points, totaling 32.5 percent of GDP.

Due to record high prices and reduced purchasing power, average household real income declined by 6 percent during 2022, with consumption down 10 percent in real terms among households in the first quintile. Despite the decline in purchasing power, employment was up 2.2 percent in 2022 driven by a 4.5 percent increase in the employment of women. Poverty, as measured by the international US$6.85 2017 PPP per day poverty line is forecasted to have increased from 14.4 percent in 2021 to 16.2 percent in 2022.

Outlook

GDP growth is predicted to gradually rebound to 1.8 percent in 2023, fully recovering in 2024. Amidst strong base effects, growth will resume later this year due to strong remittances, fiscal stimulus, and better monetary conditions supporting consumption and investments. On the production side, agriculture is expected to strongly rebound from last year's drought. In medium term, growth depends on inflation dynamics, energy security, and the ongoing Russian invasion of Ukraine. Governmental measures, like higher pensions, social protection, and wages throughout 2023, are anticipated to alleviate the impact on households. Consumer credit remains subdued, and the proximity to Ukraine poses challenges to both domestic and foreign investments, as well as net exports. In terms of production, industry will remain constrained by heightened input expenses. Nevertheless, the service sector will spearhead growth, with a strong contribution from the transport sector, mainly due to Ukraine freight.

Assuming moderated import prices and controlled second-round effects, inflation will gradually recede towards the Central Bank target of 5 percent by end-2023. The external stance is expected to be challenged by high import prices and subdued capital inflows driven by heightened uncertainty. In the medium term, remittance inflows will stabilize as migrants seek alternative destinations, helping to address the structural deficit of the current account. The current account deficit is anticipated to exceed pre-COVID-19 levels and remain reliant on external financing. The expected economic slowdown will lower revenues, resulting in a 5.4 percent fiscal deficit in 2023. In the medium-term high deficits are expected to persist due to infrastructure needs. Despite the challenging outlook, public debt remains sustainable.

Poverty, as measured by the US$6.85 2017 PPP poverty line, is forecasted to decrease from 16.2 percent in 2022 to 13.9 percent in 2023. With the anticipated economic recovery, poverty is projected to decline further to 11.1 percent in 2024.

TABLE 2 Moldova / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-7.4	13.9	-5.0	1.8	4.2	4.1
Private consumption	-8.3	15.5	-6.3	3.0	4.1	4.2
Government consumption	3.1	3.8	5.1	1.3	2.1	0.0
Gross fixed capital investment	0.4	1.7	-6.8	1.9	5.1	5.3
Exports, goods and services	-9.6	17.5	26.7	3.3	4.6	5.1
Imports, goods and services	-5.0	19.2	15.9	3.6	3.9	4.1
Real GDP growth, at constant factor prices	-7.6	15.6	-4.9	1.9	4.2	4.0
Agriculture	-26.4	18.7	-21.2	4.6	3.3	3.5
Industry	-4.3	5.6	-8.6	1.2	4.6	5.1
Services	-4.8	19.3	-0.7	1.8	4.2	3.7
Inflation (consumer price index)	4.1	5.1	28.7	14.1	6.2	4.9
Current account balance (% of GDP)	-7.7	-12.4	-15.7	-11.7	-10.4	-9.4
Net foreign direct investment inflow (% of GDP)	1.3	1.6	0.8	1.4	2.6	2.4
Fiscal balance (% of GDP)	-5.3	-1.9	-3.2	-5.4	-4.4	-3.5
Revenues (% of GDP)	31.4	32.0	33.4	32.1	31.8	32.5
Debt (% of GDP)	36.4	33.8	35.9	34.9	36.8	35.7
Primary balance (% of GDP)	-4.5	-1.1	-2.0	-4.6	-3.6	-2.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.5	0.3	0.4	0.3	0.3	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	15.4	14.4	16.2	13.9	11.1	9.2
GHG emissions growth (mtCO2e)	-2.4	10.8	-3.0	3.7	3.6	2.6
Energy related GHG emissions (% of total)	64.6	66.9	67.4	65.6	65.3	65.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2021-HBS. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.