MOLDOVA

Table 1	2023
Population, million	2.5
GDP, current US$ billion	16.5
GDP per capita, current US$	6583.5
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]	106.5
Life expectancy at birth, years[b]	68.8
Total GHG emissions (mtCO2e)	18.4

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

Despite avoiding another energy crisis, Moldova has grappled with the fallout from Russia's invasion of Ukraine, facing reduced incomes and a strained economy, resulting in sluggish growth in 2023. Structural reforms and EU integration are crucial amid persistent poverty and economic challenges, including low productivity and climate vulnerabilities. Despite the expected 2024 recovery, significant risks remain, including the ongoing war, potential energy shocks, and headwinds from the upcoming elections.

Key conditions and challenges

Moldova is facing unprecedented challenges due to the spillover effects of Russia's invasion of Ukraine, which resulted in an energy and refugee crisis, straining households, the economy, and public finances. Despite significant efforts to mitigate these crises through fiscal measures and monetary policies, dwindling household incomes and persistent high risks continue to stifle private consumption and investment confidence, resulting in sluggish growth in 2023 after the recession in 2022. While a moderate economic recovery and improved household incomes are expected for 2024, there are significant macroeconomic risks, including the potential intensification of the war in Ukraine, additional energy disruptions, and headwinds from the upcoming elections in 2024 and 2025.

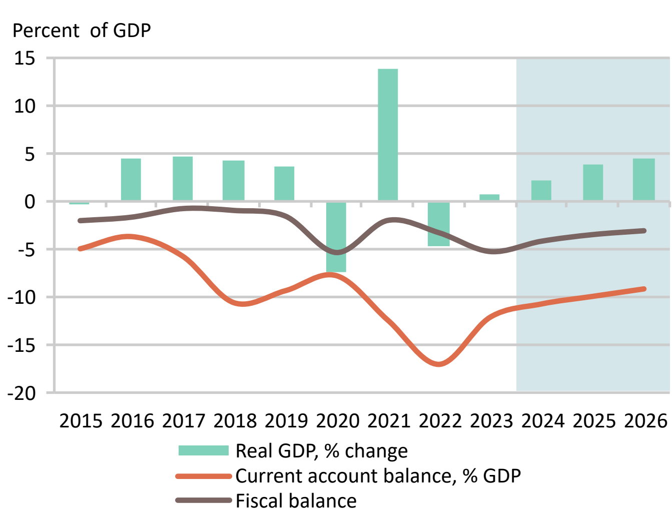
Moldova's medium-term prospects hinge on structural reforms and progress toward EU accession. Despite sustained economic growth over two decades, poverty remains pervasive, particularly in rural regions, with limited access to services and viable economic opportunities. Traditional means of poverty alleviation, such as remittances and social assistance, are slowing, while low labor force participation and employment rates impede a shift to employment-focused poverty reduction, underscoring the urgency for structural reforms.

Moldova faces structural challenges including low productivity growth, governance deficiencies, a large state footprint, limited competition, an imbalanced business environment, and tax distortions. The country remains vulnerable to adverse weather events and energy shocks due to its heavy dependence on energy imports and limited diversification in energy sources. Climate change worsens these vulnerabilities, increasing the frequency and severity of droughts and other natural hazards, thereby posing substantial risks to Moldova's agricultural sector and livelihoods. With EU candidate status, strong reform momentum and growth-enhancing, climate-resilient investments are needed to foster long-term, sustainable development and convergence toward EU income levels.

Recent developments

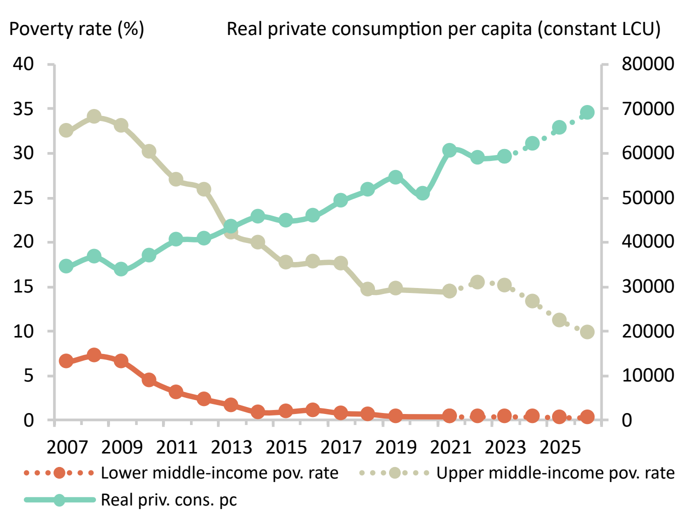
Spillovers from the war continue to weigh on the economy. The economy has grown by 0.7 percent in 2023, driven by a strong rebound in the agriculture sector, which grew by 31.9 percent after the 2022 drought. The industry and services sectors contracted, despite notable growth in IT, health, and accommodation and food services sectors, amid high input costs, lower demand from trading partners, and heightened risk. On the demand side, net exports contributed positively to growth, supported by services exports and reduced imports amid weak domestic demand. Private consumption and investments contracted due

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.

to reduced disposable income, elevated interest rates, and uncertainties stemming from the war in Ukraine.

Albeit a 5.8 percent decline in remittances, the current account deficit improved to 11.9 percent of GDP in 2023, driven by lower trade balance alongside improvements in primary and secondary accounts. Following a decline in direct investments, the CAD was primarily funded through cash, deposits, and trade loans. External debt decreased by 2.8 percentage points compared to end-2022, reaching 63.3 percent of GDP.

Inflation decelerated rapidly in 2023 due to timely monetary responses in 2022 and declining food and fuel prices, reaching 4.6 percent in January 2024. With the easing of inflation, the Central Bank reduced the base interest rate from 17 percent in early 2023 to 4.25 by November 2024.

Total revenues increased by 11.8 percent, driven by income taxes, social contributions, and excise duties on imported goods. Elevated expenditures on social programs, wages, and interest payments offset the revenue increase, reflecting inflationary pressures and higher financing needs. As a result, the fiscal deficit widened to 5.2 percent of GDP. Public and publicly guaranteed debt is forecasted to reach 36 percent of GDP by 2023, fueled by new loan disbursements.

High food and fuel prices reduced purchasing power, with government energy subsidies providing some relief. Poverty rates, as measured by the US$6.85 2017 PPP poverty line, are expected to have stayed broadly constant, marginally dropping from 15.4 percent in 2022 to 15.0 percent in 2023.

Outlook

The economy is expected to grow by 2.2 percent in 2024, underpinned by rising real wages, a positive fiscal impulse, and subdued inflation. Private consumption and investments are expected to underpin growth, backed by an accommodative monetary stance. Net exports are expected to hinder growth, reflecting increased demand-driven imports. On the production side, the service sector, particularly IT, transport and public services, is expected to underpin growth. The contribution of the industrial sector will trailing pre-war levels, largely due to weak external demand. Agriculture sees modest gains amid higher input costs and good yields in 2023.

Reforms for economic diversification and competitiveness, aligned with the EU accession agenda, along with positive fiscal measures and favorable interest rates, will drive medium-term growth.

Average inflation is projected to decline further in 2024 as commodity prices ease and to remain within the target corridor in the medium term. However, inflation remains highly susceptible to geopolitical tensions due to the war in Ukraine.

While the CAD is expected to narrow in 2024, supported by service exports and a gradual recovery in remittances, it is expected to remain above pre-pandemic levels because of elevated import prices and transport costs.

The fiscal deficit is anticipated to remain high at 4.1 percent of GDP in 2024 due to spending pressures, including support for households, jobs, refugees, and infrastructure. The deficit is projected to decrease in the medium term, reaching 3 percent of GDP in 2026 as fiscal support is phase out.

As inflationary pressures ease, the poverty rate, as measured by the US$6.85 2017 PPP poverty line, is expected to decrease to 13.3 percent in 2024. With the anticipated economic recovery and normalization of inflation, poverty is projected to decline further to 11.2 percent in 2025.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	13.9	-4.6	0.7	2.2	3.9	4.5
Private consumption	17.3	-4.8	-0.5	1.8	3.3	3.8
Government consumption	4.4	4.8	-2.2	0.8	0.7	0.2
Gross fixed capital investment	1.9	-10.5	-1.3	3.3	4.1	5.6
Exports, goods and services	17.5	29.7	5.1	3.5	5.7	5.9
Imports, goods and services	21.2	18.2	-5.1	2.9	3.9	4.3
Real GDP growth, at constant factor prices	13.4	-4.2	1.5	2.2	3.9	4.5
Agriculture	50.3	-23.5	31.9	2.3	3.8	3.8
Industry	0.5	-10.3	-10.0	4.6	4.8	5.2
Services	12.4	3.0	-0.1	1.5	3.6	4.4
Inflation (consumer price index)	5.1	28.7	13.4	4.9	5.2	5.0
Current account balance (% of GDP)	-12.4	-17.1	-11.9	-10.7	-9.9	-9.1
Net foreign direct investment inflow (% of GDP)	1.6	0.8	2.5	2.6	2.5	2.3
Fiscal balance (% of GDP)	-1.9	-3.2	-5.2	-4.1	-3.4	-3.0
Revenues (% of GDP)	32.0	33.3	34.1	33.0	32.6	32.4
Debt (% of GDP)	33.8	35.9	36.0	39.5	39.3	38.9
Primary balance (% of GDP)	-1.1	-2.0	-3.6	-2.8	-2.1	-1.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.3	0.4	0.4	0.3	0.3	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	14.4	15.4	15.0	13.3	11.2	9.8
GHG emissions growth (mtCO2e)	10.8	-3.0	29.9	2.1	2.5	3.2
Energy related GHG emissions (% of total)	66.9	67.4	72.5	71.9	72.1	73.0

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: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2021) with pass-through = 0.7 (Low (0.7)) based on private consumption per capita in constant LCU.