MOLDOVA

Table 1	2021
Population, million	2.6
GDP, current US$ billion	13.7
GDP per capita, current US$	5199.9
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.5
Upper middle-income poverty rate ($5.5)[a]	13.3
Gini index[a]	26.0
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	71.9
Total GHG Emissions (mtCO2e)	12.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Growth is expected to be curtailed by the unfolding crisis in Ukraine despite its swift recovery from COVID-19. Medium term growth hinges on the containment of the war and of the COVID-19 pandemic, as well as a successful management of the refugee crisis and sustained fiscal support. Authorities face policy trade-offs between the need for mitigating shocks and the implementation of a broad-based reforms program to support long term growth.

Key conditions and challenges

Despite a solid economic performance in the past two decades, the economic model remains reliant on remittances-induced consumption, with an associated low productivity growth resulting from persistent structural and governance weaknesses, significant state enterprises footprint, low competition, uneven playing field, and tax distortions. The 2014 bank fraud uncovered deep weaknesses in the financial sector. Extreme weather events and the propagation of economic and financial crises from the main trading partners have been a traditional risk for a small open economy like Moldova. The COVID-19 pandemic has recently also raised concerns about the health system's stability.

Recent developments in Ukraine pose major threats to the economic prospects of Moldova through trade (32 percent of imports and 14 percent of exports are with Russia and Ukraine) and remittances channels (70 percent of migrants and 25-30 percent of remittances are related to Russia and Ukraine). Key infrastructure networks are primarily connected to Ukraine despite recent efforts to better connect the country to the EU. The potential disruption in the supply of food, energy and commodity imports is expected to further increase prices. The fiscal position is expected to be further weakened by inflows of refugees, the impact on revenues and on social spending to mitigate rising inflation, squeezing fiscal space.

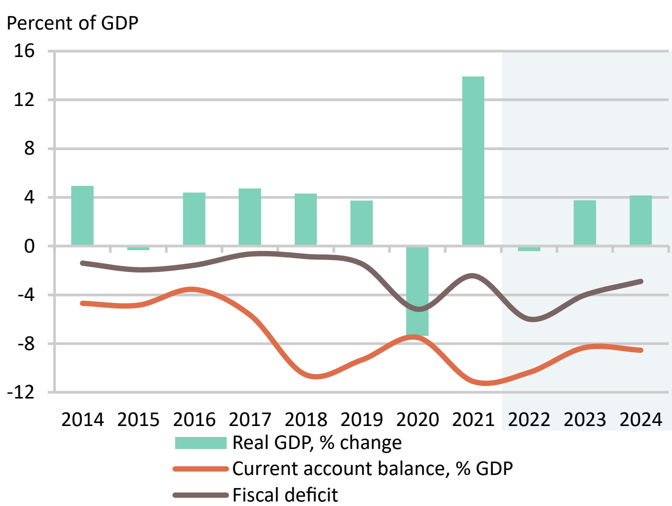
Persistent inequality of opportunity limits the ability of low-income households to access public services, reducing their resilience and cementing low intergenerational mobility. Due to the 2020 contraction, poverty increased from 25.2 percent in 2019 to 26.8 percent in 2020 (based on the national poverty line), marking the second consecutive year in which poverty increased.

The government faces the challenge of striking the balance between cyclical and structural problems, sustaining economic recovery with a stronger fiscal impulse while ensuring fiscal sustainability, and implementing an ambitious structural reforms program to improve competitiveness and long-term growth.

Recent developments

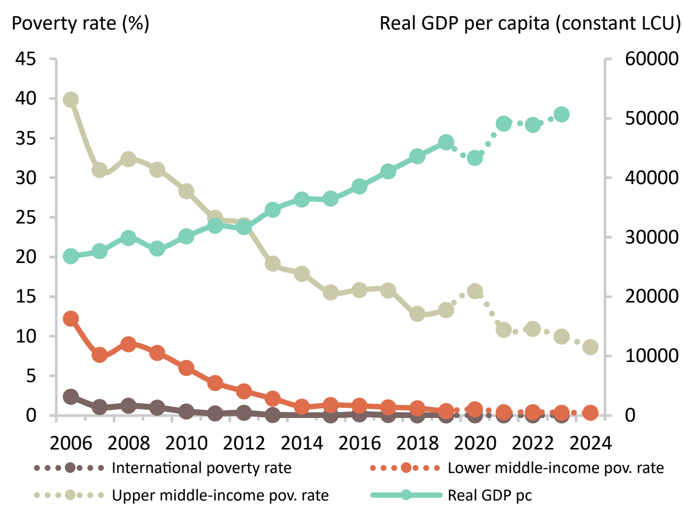
Economic activity bounced back by 13.9 percent in 2021. A strong increase in wages, remittances and social transfers contributed to private consumption growth. Investments increased by 7 percent on the back of favorable monetary conditions. Strong domestic demand and restocking after the lockdown led to significant drag on growth from net exports, albeit a strong increase of exports due to high yields. All economic sectors recovered after a sharp contraction in 2020, with the agricultural sector leading (14.3 percent) after the 2020 drought.

FIGURE 1 Moldova / Projected macroeconomic indicators



Source: Author's calculations based on national statistics

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



Source: World Bank. Notes: see Table 2.

The accommodative monetary conditions throughout 2021 were reversed as inflationary pressures began to pick up due to increasing global energy and food prices and strong domestic demand. Policy interest rate tightened to 10.5 percent from 2.5 percent in 2021. In the first three quarters of 2021, the current account deficit almost doubled reaching 13 percent of GDP as imports expanded quicker than exports and remittances, financed primarily by cash and deposits in foreign currency. On the back of higher GDP, external debt decreased by 4.5 percentage points to 66.1 percent of GDP.

In 2021, health and social protection (35.4 percent and 13 percent, y/y) were the main drivers of spending increase (+ 11.9 percent, y/y). Spending on non-financial assets increased by 17.6 percent despite lower execution of capital investments. Revenue collection rebounded strongly (+23.5 percent, y/y). The fiscal deficit, mainly financed through foreign debt, reached 2 percent of GDP. Public and publicly guaranteed debt decreased to around 33 percent of GDP.

Employment recovered to its pre-pandemic levels by Q4 of 2021 and wages grew by 13 percent in the first three quarters of 2021, y/y. The Government almost doubled the minimum pension in 2021, increasing disposable incomes for pension-receiving households. However, rising energy and food prices started affecting purchasing power of vulnerable households in the last quarter of 2021.

Outlook

The unfolding war in Ukraine is expected to affect the economy through the trade and remittances channels as well as prices and financial uncertainties. Even under an optimistic scenario of the resolution of the conflict in Ukraine and reestablishment of the trade routes, subsiding pandemic risks, a continuation of a broad-based government reform program, and sustained fiscal impulse, growth is expected to substantially decelerate to -0.4 percent in 2022. In an optimistic scenario of de-escalation of the situation in Ukraine, growth is expected rebound to 3.8 percent in 2023 and around 4.4 percent in 2024. As the economy gains steam and the trade routes are reestablished and higher global energy and food prices subside, the current account deficit is expected to improve. High inflationary pressures will persist throughout 2022 with the inflation rate remaining well above the upper bound of the central Bank target corridor of 5 percent (+/-1.5 percent). The fiscal deficit in the medium term is expected to remain higher than in pre-Covid-19 years, as the economy will need to protect the disposable income of the population from increasing prices (particularly energy and food), support the refugees and increase investments as the ambitious reform program gains steam. As a result, public debt is expected to increase, while remaining relatively low by international standards.

Given the recovery in the labor market and strong remittance receipts, poverty is expected to have decreased from 15.7 percent in 2020 to 10.8 percent in 2021, according to US$5.50 PPP poverty line. Impacts of the war in, including higher food and fuel inflation, the potential for return migration and lower remittances, as well as a weaker labor market due to lower demand for exports, are forecasted to lead to a stagnation in poverty of 10.9 percent in 2022.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.7	-7.4	13.9	-0.4	2.7	4.2
Private Consumption	3.2	-8.3	15.5	0.8	3.8	4.4
Government Consumption	1.3	3.1	3.8	2.6	1.3	2.1
Gross Fixed Capital Investment	11.9	0.4	1.7	-1.0	3.7	4.3
Exports, Goods and Services	8.2	-9.6	17.5	0.8	4.1	4.3
Imports, Goods and Services	6.2	-5.0	19.2	2.0	4.6	3.9
Real GDP growth, at constant factor prices	4.0	-7.6	15.6	-0.8	2.5	4.2
Agriculture	-2.3	-26.4	18.7	5.0	2.0	7.0
Industry	7.1	-4.3	5.6	3.5	4.3	5.4
Services	4.3	-4.8	19.3	-3.4	1.9	3.2
Inflation (Consumer Price Index)	4.7	4.1	5.1	18.1	6.2	4.6
Current Account Balance (% of GDP)	-9.3	-7.7	-11.1	-10.4	-9.0	-8.8
Net Foreign Direct Investment (% of GDP)	4.2	1.3	1.6	0.8	1.5	2.7
Fiscal Balance (% of GDP)	-1.4	-5.3	-1.9	-6.1	-4.1	-3.1
Debt (% of GDP)	27.4	36.4	32.4	36.6	36.0	35.2
Primary Balance (% of GDP)	-0.7	-4.5	-1.1	-4.9	-2.9	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.5	0.8	0.4	0.4	0.4	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	13.3	15.7	10.8	10.9	10.0	8.6
GHG emissions growth (mtCO2e)	-1.3	-9.6	6.0	-2.7	-0.7	-0.1
Energy related GHG emissions (% of total)	61.9	62.1	62.0	60.5	59.8	59.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2019-HBS.Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.