

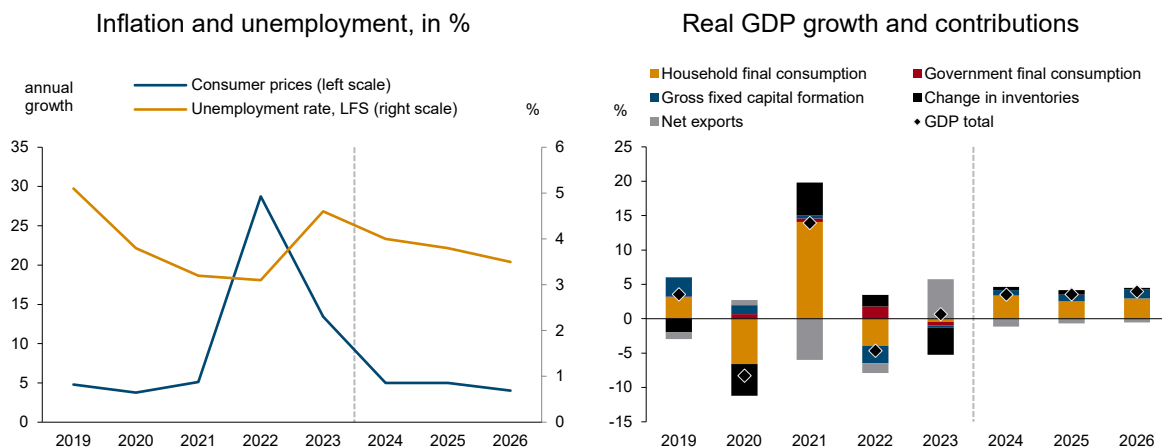


MOLDOVA: Prospects improving amidst considerable political risk

GÁBOR HUNYA

Economic growth will pick up to 3.5% in 2024, following a very modest showing of 0.7% last year. Inflation will stabilise at a low level, allowing for monetary policy to be loosened. The current account and fiscal deficits will remain relatively high, but multinational institutions will provide a stable source of financing. The Europe-oriented leadership will be challenged in October in a presidential election and a referendum on EU membership. Russia's subversive activities and domestic oligarchic interests support a strong opposition.

Figure 6.13 / Moldova: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

GDP grew by only 0.7% in 2023, following a sharp decline the previous year. This weak growth highlighted the country's inability to fully digest the shocks inflicted by the war in neighbouring Ukraine, the high inflation and trade reorientation. Consumption – both private and public – fell for the second year in a row, as did investment. Net exports constituted the only positive component of GDP growth, although both nominal exports and imports were lower than the previous year.

There have been signs of a recovery since mid-2023. After negative year-on-year growth in the first two quarters, Q3 2023 brought a remarkable upswing, thanks to a good harvest. But the Q4 results were disappointing, with only 0.2% growth, mainly due to contracting public consumption. At the same time, inflation subsided, allowing household consumption and investments to recover, while exports grew ahead of imports. Private investment was still weak and housing construction did not pick up. But

corporate investment in machinery and equipment took off and the credit market recovered, benefiting from lower interest rates.

Industrial production was down 4.2% in 2023, though it did start to recover in Q4. The production of machinery, electrical equipment and pharmaceuticals grew strongly, indicating a structural shift to higher-skilled products. Still, the bulk of the output and of exports could be chalked up to the food industry, as well as to unprocessed agricultural products. Moldova's products benefit from free access to EU markets, and no quantitative restrictions apply to any of its agricultural products. The extent to which the country is able to benefit from these concessions depends greatly on weather conditions.

A contraction in demand and aggressive monetary tightening brought inflation down in 2023. The annual rate fell from 34.6% in January to 4.3% in December – where it remained for the first two months of the current year. This is below the national bank target and is almost on a par with the policy rate of 4.25%. There is no inflationary threat on the horizon, and so monetary policy can remain loose. Further disinflation is not likely, however, as demand picks up and agricultural input prices stay high.

Disposable real income has still not reached the level it stood at in 2021. But there has been some movement in the right direction, as real wages increased rapidly in Q4 2023 on the back of falling inflation and rising nominal wages. Real wage growth will remain modest in the future, given the abundant supply of labour.

Since the outbreak of the war in Ukraine, there has been a rise in the number of both employed and unemployed people. Some who had been working in either neighbouring Ukraine or in Russia returned home, while others arrived as refugees and entered the labour market. Still, Moldova has remained a country of strong net emigration. According to the World Bank, it receives remittances that total 14% of GDP. In a new development, remittances are now also sent abroad from Moldova in an amount equivalent to 3% of GDP.

The twin deficit of the current account and the general budget has been something of feature of Moldova's economy. The current account deficit shrank to about 8% of GDP in 2023 (from 11% the previous year), while the fiscal deficit widened to 5.2% of GDP (from 3.2%). The inflow of funds from multinational and bilateral institutional donors has allowed for smooth financing of the public sector. The International Monetary Fund is not putting any pressure on the country to introduce an immediate stabilisation policy. Donors also back investment in energy efficiency, infrastructure development and the modernisation of agriculture. Further support is provided to strengthen public institutions and the rule of law. Donors have reported progress in most areas.

The positive trends that emerged in the final months of 2023 will continue in 2024. A revival in consumption and investment on the back of low inflation will support economic growth. International financial institutions will keep the country afloat, just as in the past. But transfers will not be so lavish as to provide a serious boost to economic performance. Nor will the country's absorption capacity and institutional readiness facilitate a jump-start. Under the present circumstances, GDP will grow by about 3.5% in 2024, assuming flat agricultural output under average weather conditions. It should be noted, however, that the weather can affect GDP – either to its benefit or its detriment – by as much as 2 percentage points.

As a country that is catching up from a very low level, Moldova should be in a position to achieve stronger growth in the future; however, the catch-up has been hampered by unfavourable political conditions, both external and internal. Russia has intensified its hybrid-war activities, and the conflict with the breakaway region of Transnistria heats up from time to time. The government has taken steps to shield the population against misinformation and has closed several channels of Russian influence. There are also powerful domestic oligarchs and organisations challenging the European orientation of the country. A popular slogan of the opposition contends that neutrality should mean maintaining equidistance from East and West.

The president and the government do not have the overwhelming majority of the population on their side. A presidential election is scheduled for October of this year, together with a referendum on joining the European Union.¹⁸ Had the presidential election been held in mid-March, the presidential incumbent, Maia Sandu, would have gained only about a third of the votes cast in the first round. According to current polls, only a slim majority of electors is in favour of the country's European orientation, but President Sandu will be hoping to pick up their votes in the second round of the election. Should she fail to do so, the country will in all likelihood renounce its European ambitions. In that case, Moldova would receive less Western support, while Russia's backing may not prove adequate. That would translate into slower economic growth in the coming years.

¹⁸ Moldova was granted EU candidate status in 2022; in November 2023, the EU Commission recommended that the European Council open accession negotiations.

Table 6.13 / Moldova: Selected economic indicators

	2020	2021	2022	2023 ¹⁾	2024	2025	2026
					Forecast		
Population, th pers., average	2,635	2,596	2,539	2,580	2,560	2,530	2,500
Gross domestic product, MDL bn, nom.	199.7	242.1	274.5	300.4	327	349	377
annual change in % (real)	-8.3	13.9	-4.6	0.7	3.5	3.5	4.0
GDP/capita (EUR at PPP)	8,200	10,020	10,430	10,510	.	.	.
Consumption of households, MDL bn, nom.	162.2	199.6	230.3	252.7	.	.	.
annual change in % (real)	-7.9	17.3	-4.8	-0.5	4.0	3.0	3.5
Gross fixed capital form., MDL bn, nom.	49.8	58.3	60.7	59.0	.	.	.
annual change in % (real)	5.6	1.9	-10.5	-1.3	4.0	5.0	7.0
Gross industrial production							
annual change in % (real)	-5.5	12.1	-5.1	-3.6	3.0	5.0	5.0
Gross agricultural production							
annual change in % (real)	-27.2	57.9	-29.2	23.6	.	.	.
Construction industry							
annual change in % (real)	11.8	4.7	-15.1	-2.5	.	.	.
Employed persons, LFS, th, average ²⁾	834.2	843.4	862.3	886.9	900	910	920
annual change in %	-4.4	1.1	2.2	2.8	2.0	1.0	1.0
Unemployed persons, LFS, th, average ²⁾	33.1	28.2	27.7	42.6	40	40	30
Unemployment rate, LFS, in %, average ²⁾	3.8	3.2	3.1	4.6	4.0	3.8	3.5
Reg. unemployment rate, in %, eop	2.9	2.3	2.4	1.0	.	.	.
Average monthly gross wages, MDL	7,943	8,980	10,447	12,259	13,400	14,500	15,500
annual change in % (real, gross)	5.8	7.6	-9.6	3.5	4.0	3.0	3.0
Average monthly net wages, MDL	6,617	7,635	8,900	10,200	11,100	12,000	12,900
annual change in % (real, net)	6.1	9.8	-9.5	1.0	4.0	3.0	3.0
Consumer prices, % p.a.	3.8	5.1	28.7	13.4	5.0	5.0	4.0
Producer prices in industry, % p.a.	2.6	8.5	26.7	12.6	3.0	3.0	3.0
General governm. budget, nat. def., % of GDP							
Revenues	31.4	32.0	33.3	34.1	35.0	35.0	35.0
Expenditures	36.7	33.9	36.6	39.2	39.0	38.5	38.0
Deficit (-) / surplus (+)	-5.3	-1.9	-3.2	-5.2	-4.0	-3.5	-3.0
General gov. gross debt, nat. def., % of GDP	34.2	32.6	35.0	36.0	36.0	35.0	35.0
Stock of loans of non-fin. private sector, % p.a.	13.2	22.6	8.5	3.0	.	.	.
Non-performing loans (NPL), in %, eop ³⁾	7.4	6.1	6.4	5.6	.	.	.
Central bank policy rate, %, p.a., eop ⁴⁾	2.65	6.50	20.00	4.75	4.50	4.00	4.00
Current account, EUR m ⁵⁾	-778	-1436	-2358	-1825	-1,590	-1,550	-1,460
Current account, % of GDP	-7.7	-12.4	-17.1	-11.9	-9.7	-8.9	-8.1
Exports of goods, BOP, EUR m ⁵⁾	1,706	2,165	3,516	3,167	3,330	3,560	3,760
annual change in %	-9.8	26.9	62.4	-9.9	5.1	6.9	5.6
Imports of goods, BOP, EUR m ⁵⁾	4,420	5,706	8,449	7,686	7,920	8,330	8,620
annual change in %	-8.9	29.1	48.1	-9.0	3.0	5.2	3.5
Exports of services, BOP, EUR m ⁵⁾	1,121	1,381	2,165	2,256	2,480	2,810	3,070
annual change in %	-18.7	23.2	56.7	4.2	9.9	13.3	9.3
Imports of services, BOP, EUR m ⁵⁾	772	982	1,302	1,437	1,520	1,650	1,750
annual change in %	-26.7	27.3	32.6	10.3	5.8	8.6	6.1
FDI liabilities, EUR m ⁵⁾	137	326	557	386	.	.	.
FDI assets, EUR m ⁵⁾	3	12	43	1	.	.	.
Gross reserves of CB excl. gold, EUR m ⁵⁾	3,079	3,442	4,202	4,899	.	.	.
Gross external debt, EUR m ⁵⁾	6,591	7,719	9,018	9,411	10,100	11,000	11,500
Gross external debt, % of GDP	65.1	66.7	65.4	61.5	62.0	63.0	64.0
Average exchange rate MDL/EUR	19.74	20.93	19.90	19.64	20.0	20.0	21.0

Note: All series excluding data on districts from the left side of the river Nistru and municipality Bender.

1) Preliminary and wiiw estimates. - 2) Methodology in line with the Integrated European Social Statistics Regulation (IESS). - 3) Substandard, doubtful and loss credit portfolio. - 4) Overnight (refinancing) operations rate. - 5) Converted from USD.

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.