



Moldova

Highlights

- **Rising gas prices and the war on Ukraine have disrupted the economy and fuelled inflation.** After a strong recovery in 2021, gross domestic product (GDP) stalled in the first half of 2022, while inflation reached 34.3 per cent in August 2022.
- **Financing from official creditors was pivotal in covering the twin deficits.** After significant losses of foreign reserves at the beginning of 2022, the augmentation of the International Monetary Fund (IMF) programme helped to mobilise additional financial support from the European Union (EU) and the World Bank, thereby stabilising external finances.
- **The European Council granted Moldova the status of EU candidate country.** The European Commission acknowledged that the authorities had demonstrated a commitment to anti-corruption and judicial and public administration reform, and set out the further steps that need to be taken.

Key priorities for 2023

- **The authorities should continue to strengthen institutional capacity and improve governance.** Key priorities in the short term include enabling an independent and professional judiciary, strengthening public institutions and continuing the fight against corruption.
- **Efforts to enhance energy resilience need to continue through the development of renewables and energy efficiency.** Moldova should build on the initial steps taken in 2022 to diversify energy sources. In addition, long-awaited renewables auctions need to be implemented, and energy efficiency investments are all the more necessary at a time of high energy prices.
- **The authorities should continue the digitalisation of public services.** Digitalisation could play an important role in steering the economy towards higher value-added sectors, and the digitalisation of public services could be a catalyst to a thorough transformation of public institutions and governance.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	4.1	3.6	-8.3	13.9	-1.0
Inflation (average)	3.1	4.8	3.8	5.1	28.5
Government balance/GDP	-0.9	-1.5	-5.3	-2.6	-6.2
Current account balance/GDP	-10.8	-9.4	-7.7	-12.4	-12.8
Net FDI/GDP [neg. sign = inflows]	-2.3	-4.0	-1.3	-2.8	-0.4
External debt/GDP	63.9	61.6	70.5	64.1	n.a.
Gross reserves/GDP	26.6	26.1	32.8	28.5	n.a.
Credit to private sector/GDP	18.8	19.6	22.9	23.3	n.a.

Macroeconomic developments and policy response

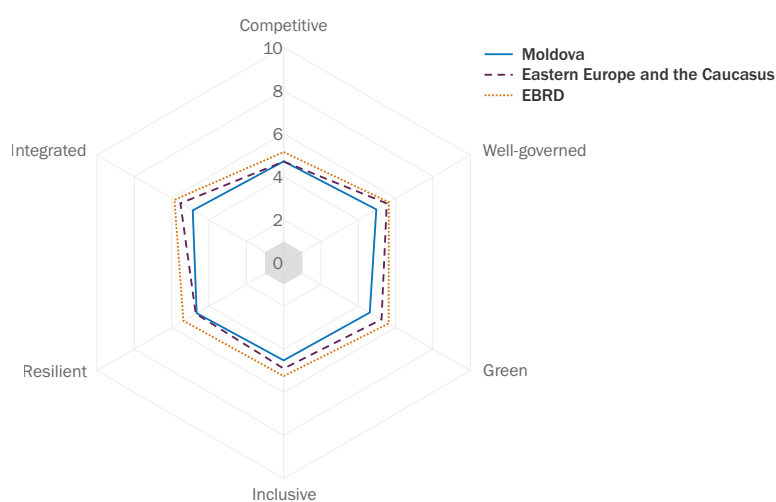
Rising gas prices and the war on Ukraine have brought growth to a virtual halt. After exceptionally strong GDP growth of 13.9 per cent in 2021, GDP stalled at zero per cent growth (year on year) in the first quarter of 2022. Government consumption and net exports showed solid growth, but were insufficient to compensate for the stagnation of private consumption and a decline in investment. The war on Ukraine has affected Moldova mainly through a major inflow of refugees and a sharp rise in inflation. Around 600,000 refugees entered the country, with an estimated 90,000 remaining in Moldova and the others transiting further. This influx of refugees has severely stretched the fragile economy and the country's institutional capacity.

Inflation had exceeded 30 per cent by the middle of 2022, prompting significant fiscal measures to help households and businesses. Expenses on utilities were one-quarter of household incomes on average, even before the threefold increase in gas prices over a period of several months. Real earnings have already dropped by 11.3 per cent in the second quarter (year on year) of 2022, not being able to keep pace with rising inflation. The government stepped in with gas subsidies for households and businesses, estimated at around 1.9 per cent of GDP in 2022. In addition, export bans on staple crops such as wheat and maize entered into force in February 2022 to prevent further food price increases. The authorities also expanded social spending by increasing subsidies for farmers in April 2022 to cover household income losses due to energy price rises, and by providing energy price compensation between January and March 2022. On top of that, adding expenses for dealing with refugees would result in a budget deficit projected by the IMF at 7.2 per cent of GDP in 2022. Public debt, which already increased by 5 percentage points during the Covid-19 pandemic, is forecast to increase by an additional 6 percentage points in 2022 to 38.4 per cent of GDP, but still remains at moderate levels.

International creditors are helping to fund external gaps. After an initial depletion of foreign reserves in early 2022, international financial support has stemmed the outflows and partially reversed the trend since April 2022. In December 2021 the IMF approved a new 40-month US\$ 558 million Extended Credit Facility/Extended Fund Facility programme, which will focus on strengthening Moldova's governance and institutional frameworks. In light of the adverse shock to the Moldovan economy from the war on Ukraine, in May 2022 the IMF Board approved the augmentation of this programme by increasing the total to US\$ 796 million. In addition, Moldova will benefit from €150 million in macrofinancial assistance from the EU between 2022 and 2024 and US\$ 160 million budget support from the World Bank.

Short-term economic stagnation is likely and major uncertainties remain. Our current GDP forecast for 2022 is a decline of 1.0 per cent, followed by a stagnation of 0 per cent in 2023. Amid the high uncertainty, the risks to growth remain broadly balanced between further geopolitical deterioration and a positive boost from the country's recently granted EU candidate status.

CHART Assessment of transition qualities (1-10)



NOTE: Belarus is not included in the EBRD region and respective regional averages.

Structural reform developments

Moldova gained EU candidate status amid escalated geopolitical tensions. In June 2022 the European Council agreed to grant candidate status to Moldova (and Ukraine). The country's commitment to, and important steps taken on, judicial reform and combating corruption helped to pave the path to EU candidacy. The European Commission indicated priority areas for further policy reform related to the rule of law, protection of property rights, governance and administrative capacity in the public sector, creation of a level playing field in the economy and creating a more inclusive society.

Digitalisation of the economy and the development of e-commerce have progressed. The Economic Council of Moldova has boosted the digitalisation of government services by implementing its Digitalisation Roadmap in 2021. The government has supported the digitalisation of the economy and the Legislative Package for Digitization 1.0 – a new initiative developed by the Ministry of Economy and the Economic Council – was approved in parliament in November 2021. All government institutions are obliged to use digital tools for business operations and offer e-government services. The new Legislative Package also aims to expedite e-commerce practices and simplify customs procedures through electronic means. Further legislative amendments and initiatives (Legislative Packages for Digitalisation 2.0 and 3.0) are under development, both of which are expected to boost e-commerce, thereby generating a more favourable investment climate. As part of the e-commerce boom, parliament approved in April 2022 the delivery of training programmes to promote the growth of small and medium-sized enterprises, local information technology industries and tech start-ups.

The authorities initiated a concrete step to enhance energy security. For decades Moldova has benefited from an affordable price of Russian gas, which is mainly used for generating electricity and thermal energy. However, the large increase in the imported gas price and rising geopolitical tensions have prompted the Moldovan government to diversify energy import sources. As a first concrete step, in May 2022 the Moldovan authorities signed a contract with the Ukrainian state hydropower supplier, Ukrhydroenergo, to secure 30 per cent of its electricity demand. Meanwhile, in April 2022 parliament passed a bill to oblige the country's gas supplier, Moldovagaz, to store gas reserves in adjacent countries sufficient for two months of winter consumption. Also, the country secured a €300 million loan from the European Bank for Reconstruction and Development (EBRD) to Moldova's state-owned energy supplier, JSC Energocom, to procure gas from EU hubs.

Institutional arrangements to tackle corruption have improved. The anti-corruption reform agenda focuses on enhancing the independence and accountability of anti-corruption and judicial bodies as well as curtailing political influence on legal processes. These priorities were included in a new strategy regarding judicial independence and integrity, which was adopted by parliament in December 2021. Further legislation was adopted in April 2022 around the selection of legal officials for specialised prosecution bodies, including the Anti-Corruption Prosecutor (ACP). This new selection process includes a special pre-selection committee comprising international legal experts to prevent undue political influence. Accordingly, the ACP was elected in June 2022 through a newly strengthened selection process for spearheading operations of the Anti-Corruption Prosecution Office.

Fiscal risk monitoring and public corporate management have improved. In accordance with an IMF structural benchmark, the authorities obliged state-owned enterprises (SOEs) across all layers of government to submit their quarterly financial statements beginning from March 2022. This SOE reform aims to improve the management of state assets and should contribute to lower fiscal costs. The authorities are drafting a new SOE management strategy, in close consultation with the IMF, to diagnose persistent SOE governance issues and assess ongoing reform progress.

Parliament has paved the way for enhancing gender equality and children's rights. In October 2021 parliament ratified the Istanbul Convention, seen as one of the most effective international treaties to tackle violence against women and domestic violence. The Convention entered into force in March 2022 with a newly launched implementation roadmap. The Ministry of Labour and Social Protection launched a new five-year national programme in June 2022 to strengthen the social protection system of children. New guidelines followed in July to outline the authorities responsible for the implementation and independent monitoring of progress to enhance children's rights.