Moldova

Highlights

- **The country's economic recovery has continued in 2024, with inflation now within the central bank's target range.** Recent growth in real gross domestic product (GDP) has been broad based, while inflationary pressures have eased, mostly owing to declining energy prices.
- **Weak energy resilience and skills shortages are holding back the economy.** Continued outward migration flows are reducing the domestic labour supply, and the country's high dependence on imported energy from a single source has negatively affected economic growth over the last two years. The authorities have established new electricity and gas interconnectors with the European Union (EU), but their capacity is limited.
- **The EU has officially opened accession negotiations with Moldova.** After two years of implementing reforms and following EU recommendations in a challenging environment, the government is ready to embark on this far-reaching transformational process, with judicial reform, anti-corruption measures and the reform of state-owned enterprises (SOEs) high on its agenda.

Key priorities for 2025

- **The authorities need to improve administrative and institutional capabilities and expedite governance reforms.** The EU accession process requires a skilled and professional public administration and effective mobilisation of all domestic human resources. Enhancing institutional capabilities, strengthening the judiciary and establishing an effective anti-corruption framework will help the country to progress towards accession.
- **Reform of SOEs should be accelerated.** With most of the preparatory work completed, the next steps in the reform of SOEs involve restructuring and enhancing the efficiency of companies that will remain in state ownership, liquidating those that are not viable and commercialising those that are due to be privatised. This could help to unlock valuable resources and generate revenue.
- **Energy resilience needs to be strengthened through investment in energy infrastructure and renewables.** Building additional energy interconnectors with Romania will facilitate full integration into the EU's energy market and mitigate risks to economic growth, while renewables have the potential to be an important source of domestic electricity production.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-8.3	13.9	-4.6	0.7	3.2
Inflation (average)	3.8	5.1	28.7	13.4	5.0
Government balance/GDP	-5.3	-2.6	-3.2	-5.0	-4.7
Current account balance/GDP	-7.7	-12.4	-15.8	-12.8	-11.5
Net FDI/GDP [neg. sign = inflows]	-1.3	-2.7	-3.7	-2.2	-2.3
External debt/GDP	70.1	63.8	66.0	63.3	na
Gross reserves/GDP	32.7	28.4	30.9	33.1	na
Credit to private sector/GDP	28.7	28.5	27.5	25.8	na

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Macroeconomic developments and policy response

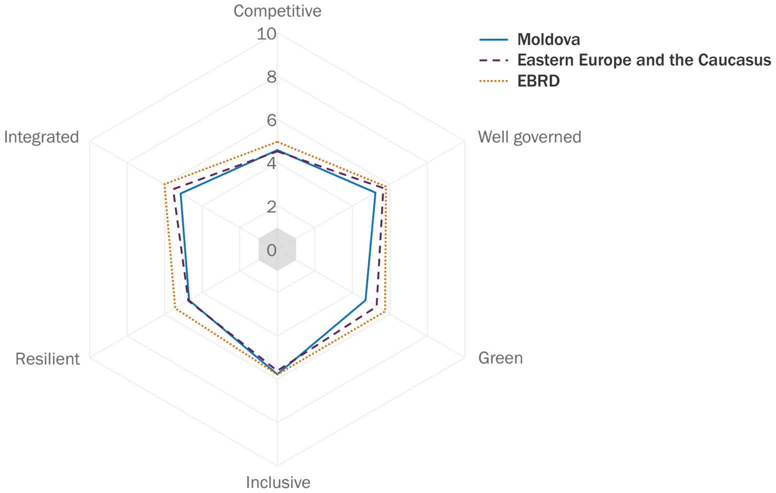
The country's modest economic recovery has continued in 2024. Real GDP increased by 2.2 per cent year on year in the first half of 2024 on the back of a broad-based recovery across multiple sectors. Agriculture grew by 6.0 per cent year on year, manufacturing rebounded solidly following the decline seen in the last two years, and information and communication technology services continued to grow, producing a robust performance. Declining inflation and real wage growth of close to 11 per cent year on year boosted private consumption. Investment in fixed assets also recovered, but net export growth turned negative. The current account deficit increased by 30 per cent year on year as a result of the higher trade deficit and reduced net inflows to the primary and secondary accounts. Foreign financing closed the balance of payments gap, while foreign reserves increased slightly in the first eight months of the year, standing at US$ 5.6 billion in August 2024, covering more than six months of imports.

Inflation is now low and the exchange rate is stable. The inflation rate has come down to within the central bank's target range of 5 per cent +/- 1.5 percentage points, and the exchange rate has been broadly stable since the beginning of 2024. Declining prices for imported electricity and gas have contributed to the falling inflation rate, allowing the National Bank of Moldova to cut its policy rate by a further 115 basis points in the first five months of the year, with that rate standing at 3.6 per cent since May 2024. The foreign-exchange market has remained broadly balanced thanks to stable foreign financing by the official sector, although grants are down compared with the last two years.

The country's fiscal performance is gradually strengthening. The fiscal deficit for 2024 is forecast to be below the 2023 figure of 5.2 per cent of GDP, indicating gradual consolidation amid improving budget revenues. The authorities are aiming to strengthen tax compliance by implementing tax administration reforms and harmonising the country's tax code and procedures with EU rules. Excise duties on tobacco and alcohol will be increased gradually to align them with EU directives by 2025. Meanwhile, public debt stood at a moderate 36.6 per cent of GDP at the end of 2023 and is forecast to increase slightly in 2024.

The economic recovery is likely to continue in the short term. We forecast real GDP growth of 3.2 per cent in 2024 and 3.5 per cent in 2025. However, the pace of the country's recovery is dependent on it having a stable energy supply and sufficient labour supply. In the last two years, economic growth has been badly hit by the war on Ukraine and the subsequent energy crisis. Newly built gas and electricity interconnectors with Romania have improved Moldova's energy security by reducing its reliance on a single source of supply, but their capacity is still limited. At the same time, migration flows to the EU have reduced the domestic labour supply, negatively affecting productivity and growth potential. There are signs that this problem is being addressed, with inclusion policies being introduced to raise the labour participation rate for women.

Assessment of transition qualities (1-10)



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Structural reform developments

EU accession negotiations have begun. Two years after granting Moldova EU candidate status, the EU officially opened accession negotiations in June 2024. Moldova will now embark on a complex process involving full implementation of the EU's acquis communautaire, which will require comprehensive reforms as regards the rule of law, the strengthening of democratic institutions and the public administration, and preparations to join the single market. In particular, the EU's negotiating framework has highlighted the need for further judicial reforms, improved anti-corruption measures and non-discriminatory treatment of minority groups. The European Commission has shown strong support for the structural reform agenda through the Growth Plan for the Republic of Moldova, adopted in October 2024. The plan is worth €1.8 billion in the period 2025-27, of which €285 million will be in the form of grants, and will be accompanied by a detailed reform agenda prepared by the authorities. In addition, Moldova has agreed a security and defence partnership with the EU to reduce military threats and enhance cybersecurity.

Judicial reform is under way. Moldova's Superior Council of Magistracy has established institutional reform guidelines in consultation with the Council of Europe, justice-sector institutions and civil society representatives. Launched in February 2024, these guidelines focus on strengthening judicial independence and the transparency of the courts.

Moldova has stepped up its anti-corruption efforts in order to accelerate the accession process. The National Integrity and Anti-Corruption Programme 2024-28, which was adopted in December 2023, aims to reduce corruption and enhance integrity in the public and private sectors. In effect since February 2024, it is overseen by the National Anti-Corruption Centre, which also monitors its implementation. Key areas include ensuring transparency in public decision-making, strengthening the judicial sector, and enhancing the democratic electoral process by tackling misinformation and illegal political financing.

Welfare spending remains a priority. Investment in education and training for people with disabilities was doubled at the beginning of 2024, while teachers' salaries rose by 15 per cent. The childbirth allowance was increased to MDL 20,000 (€1,000) to enhance child protection, the budget for veterans of the wars in Transnistria and Afghanistan rose to MDL 82 million (€4 million), and MDL 197 million (€10 million) was earmarked to support the development of small and medium-sized enterprises.

EU financing is being used to facilitate labour-market reform. In May 2024 Moldova and the EU signed an agreement giving the country access to the European Social Fund Plus in order to boost employment and re- or upskill Moldova's workforce. This agreement, which applies retroactively from January 2024, will fund policies supporting employment, social inclusion and the reduction of poverty. The specific projects that are financed will be determined in consultation with public authorities, civil society and other social development partners.

Preparatory work aimed at reforming SOEs has continued. The country's new Corporate Governance Code, which was adopted in October 2023, has established rules governing the responsibilities of SOE management and supervisory boards, reporting standards and criteria for the disclosure of information of public interest. At the same time, as a follow-up to the country's state ownership strategy, the Public Property Agency has screened 238 SOEs and determined whether they should be: (i) kept in public ownership; (ii) privatised; (iii) restructured and then privatised; or (iv) liquidated.