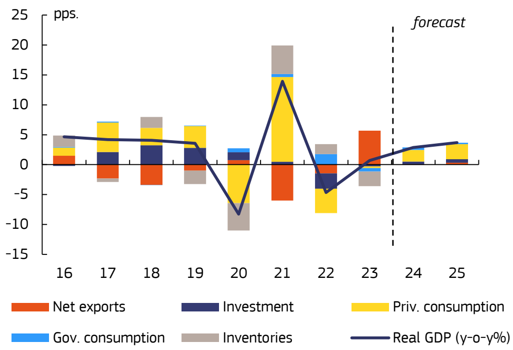
31. MOLDOVA

Following a year and a half of economic contraction triggered by both the Russian war of aggression against Ukraine and a severe drought, Moldova's nascent economic recovery began in the second half of 2023 and is expected to strengthen in 2024 and 2025. With inflation expected to remain within the central bank's target range, rising real wages and pensions and looser monetary policy are set to boost private consumption and investment over the forecast period, amidst strong headwinds linked to geopolitical factors. The fiscal deficit-to-GDP ratio is projected to fall slightly and public debt to broadly stabilise at around 40% of GDP.

Economic recovery is set to continue…

The Moldovan economy gradually entered a recovery phase in the second half of 2023. Real GDP growth of 0.7% for the year as a whole was primarily the result of strong net exports as imports remained subdued especially in the first half of the year. Private consumption and investment began to recover in the second half of the year as inflation continued to decline, enabling monetary policy to ease.

Graph II.31.1: **Moldova - Real GDP growth and contributions**



The economic recovery is expected to gain pace in 2024 and 2025, though the outlook for real GDP has been slightly less than expected in the Autumn 2023 Economic Forecast reflecting the lingering effect of the inflation shock on household incomes in 2022 and 2023. Continued employment growth and higher incomes through rising real wages and pensions are set to continue boosting private consumption in 2024 and 2025. Investment growth is expected to be supported by looser monetary policy. Nevertheless, subdued business sentiment and lower planned public investment is likely to moderate investment growth in 2024. Investment is expected to grow more strongly in 2025 with a sharp increase in planned public investment.

Growing services exports, including from the ICT sector, and the strong harvest in 2023 are set to support net exports in 2024. With imports set to rebound due to the recovery in domestic demand, net exports should have a neutral contribution to growth in 2024 and a slightly positive one in 2025.

…enabled by lower inflation

Inflation fell sharply in 2023, returning to the central bank's target range of 5% +/- 1.5 pps. in October on the back of falling global food and energy prices and the previous tightening of monetary policy. The central bank continued its monetary easing cycle that began at the end of 2022 with a series of rate cuts in 2023 and the latest in March 2024 to 3.75%. Inflation is projected to remain within the target range over the forecast period, though is expected to rise slightly towards the end of 2024 and into 2025 on the back of increased administrative prices for healthcare and fuel tariffs. However, risks related to Moldova's energy security and thus import price volatility remain, despite the country's recent efforts to reduce its dependence on imports of Russian natural gas.

Real wages are expected to recover, alongside increased employment

Real wages began growing in the second quarter of 2023 and are expected to continue growing moderately over the forecast horizon, boosted by a 25% increase in the minimum wage that took effect at the start of 2024 and increases in salaries for certain public sector workers. Pension indexation is also set to support household incomes. Both employment and the low labour force participation rate rose in 2023 despite contracting economic activity, in particular due to women joining the labour force. Further employment growth is expected as the economic recovery takes hold.

Large current-account deficit narrows

The trade deficit is set to remain very wide on account of the country's weak export base and reliance on energy imports. Still, it is projected to narrow in 2024 and 2025 thanks to lower energy import prices and stronger exports, in particular of services led by the ICT sector. The positive impact on the balance of services due to the large number of Ukrainian refugees in Moldova should fade as this consumption begins to be counted as domestic demand in the national accounts. Remittances are projected to remain high though lower than before the start of Russia's full-scale invasion of Ukraine, as many Moldovans returned from working in Ukraine or Russia.

Fiscal deficit to remain high but narrowing

Last year ended with a fiscal deficit-to-GDP ratio of 5.2%, lower than the planned 6.0%. This was primarily a result of spending under-execution, despite improved public investment execution compared to the previous year. The deficit-to-GDP ratio is expected to narrow slightly to 4.9%, as measures to mitigate the impact of high energy prices on households are phased out. Salary increases for some public sector workers and a new tax break to support investment by SMEs will reduce the size of the fiscal adjustment. Improvements are expected in public investment execution in 2024 and especially in 2025 thanks to an ongoing reform. Expenditure is projected to fall more quickly as a share of GDP than revenue, leading to a further narrowing of the fiscal deficit in 2025. Public debt is expected to grow slightly in 2024 before stabilising in 2025 thanks to a falling primary balance, lower interest payments and the recovery in real growth.

Graph II.31.2: **Moldova - General government budget balance and gross debt**

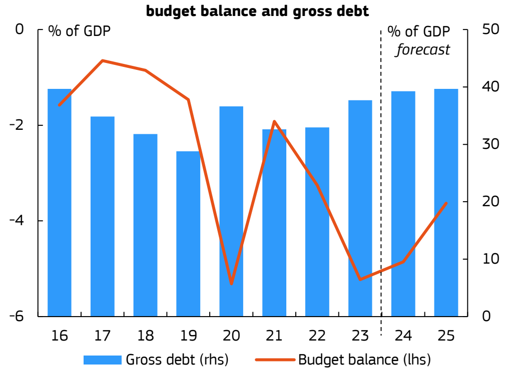


Table II.31.1:

Main features of country forecast - MOLDOVA

	2022			Annual percentage change					
	bn MDL Curr. prices	% GDP	04-19	2020	2021	2022	2023	2024	2025
GDP	272.6	100.0	:	-8.3	13.9	-4.6	**0.7**	**2.9**	**3.7**
Private Consumption	232.8	85.4	:	-7.6	17.2	-5.0	**-0.3**	**2.3**	**3.0**
Public Consumption	48.1	17.6	:	4.4	3.0	10.7	**-3.3**	**2.3**	**1.4**
Gross fixed capital formation	62.0	22.7	:	5.6	1.9	-10.5	**-1.3**	**2.5**	**3.0**
Exports (goods and services)	111.4	40.9	:	-14.9	17.5	29.7	**5.1**	**6.7**	**7.4**
Imports (goods and services)	190.8	70.0	:	-9.5	21.2	18.2	**-5.1**	**4.0**	**4.1**
GNI (GDP deflator)	273.7	100.4	:	-9.9	12.3	-6.1	**1.5**	**3.1**	**4.0**
Contribution to GDP growth:	Domestic demand		3.1	-4.5	15.2	-4.9	**-1.1**	**2.9**	**3.4**
	Inventories		0.2	-4.6	4.8	1.7	**-2.5**	**0.0**	**0.0**
	Net exports		-0.5	0.8	-6.0	-1.5	**5.7**	**0.0**	**0.3**
Employment			:	-4.4	1.1	2.2	**2.8**	**1.5**	**1.4**
Unemployment rate (a)			:	3.8	3.2	3.1	**4.6**	**4.3**	**4.0**
Compensation of employees / head			:	:	:	:	**:**	**:**	**:**
Unit labour costs whole economy			:	:	:	:	**:**	**:**	**:**
Saving rate of households (b)			:	:	:	:	**:**	**:**	**:**
GDP deflator			:	5.6	6.3	18.2	**8.6**	**6.5**	**5.0**
Consumer price index			:	3.8	5.1	28.7	**13.4**	**4.7**	**4.7**
Terms of trade goods			:	25.4	-8.2	-7.0	**-11.5**	**2.9**	**0.1**
Trade balance (goods) (c)			-28.3	-26.7	-30.7	-34.7	**-29.9**	**-28.1**	**-27.5**
Current-account balance (c)			-3.0	-7.7	-12.6	-16.6	**-12.0**	**-10.1**	**-9.1**
General government balance (c)			-1.1	-5.3	-1.9	-3.3	**-5.2**	**-4.9**	**-3.6**
Structural budget balance (d)			:	:	:	:	**:**	**:**	**:**
General government gross debt (c)			33.8	36.6	33.7	35.3	**37.7**	**39.2**	**39.7**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.