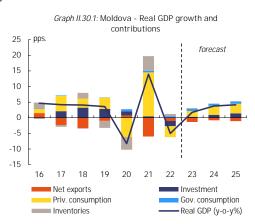
# 30. MOLDOVA

Facing multiple crises and after over a year of economic contraction, the Moldovan economy is expected to return to growth in the second half of the year. Lower inflation, looser monetary policy and stronger agricultural output are set to boost private consumption and investment over the forecast period. Inflation is expected to return to the central bank's target range, while the fiscal deficit is projected to fall slightly.

### Economic recovery following contraction in 2022

The Moldovan economy contracted by 5% last year, primarily because of falling private consumption as surging inflation due to higher food and energy prices cut into household incomes. Investment also fell due to the tightening monetary policy and increased uncertainty resulting from the Russian war of aggression against neighbouring Ukraine.

The outlook for real GDP in 2023 has been revised somewhat downward compared to the 2023 Spring Forecast. This reflects the continued contraction in output in the first half of the year (-2.3% y-o-y) as falling real wages continued to weigh on private consumption and agricultural exports suffered as a result of the poor harvest in 2022. The growth outlook for 2023 nevertheless positive thanks to a projected rebound in private consumption in the second half of the year supported by lower inflation and continued employment growth. Business sentiment improved in the second quarter and points to a mild contribution of investment to the



recovery in 2023 before strengthening further in 2024 and 2025 when the effects of monetary easing are felt. Output in manufacturing and construction is set to recover, while the ICT sector should remain a bright spot for growth. Agricultural output is projected to see a partial rebound in 2023 following the severe drought in 2022, which should help export growth. Net exports are nevertheless set to remain a drag on growth as imports also recover over the forecast horizon in line with increasing private consumption.

## Monetary policy easing follows rapid fall in inflation

After its peak at 34.6% y-o-y in October 2022, inflation has sharply decelerated on the back of stabilising food and energy prices, tight monetary policy and base effects at the beginning of 2023. The central bank has cut the policy rate from its peak of 21.5% in August 2022 to 6% in June 2023 where it has remained. Underlying inflation excluding volatile food prices has followed a similar trend. Inflation is projected to return to the central bank's target range of 5% +/- 1.5 percentage points by the end of the forecast horizon as global food and energy prices stabilise. However, risks related to energy import price volatility remain, despite Moldova's recent efforts to reduce its dependence on imports of Russian natural gas.

# Labour force grows from a low base

Moldova's low labour force participation rate has grown strongly in the first half of 2023 despite contracting economic activity, partly due to the return of Moldovans previously working in Ukraine and Russia. Refugees from Ukraine now make up about 2.5% of the population and have boosted the labour force by about 1%, but this effect may dissipate in future years. The increase in nominal wages in 2022 was overtaken by skyrocketing inflation, leading to a loss in purchasing power as real wages fell by about 13%. This is set to reverse in the second half of 2023, with real

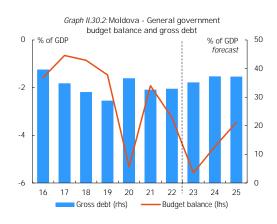
wages continuing to rise in 2024 and 2025 as inflation abates, supported by an increase in the minimum wage and public sector salaries.

## Large current account deficit narrows

The trade balance is set to remain deeply negative on account of the weak export base and high prices of energy imports, despite the trade balance in services being buoyed due to the large number of Ukrainian refugees in Moldova. The large and persistent current account deficit is however projected to begin to narrow, as agricultural exports ensuing from the stronger harvest in 2023 are set to boost exports growth in the second half of 2023 and in 2024. Remittances are projected to remain high and stable, while Moldova is expected to continue benefitting from official foreign transfers.

### Fiscal deficit remains high but narrowing

The 2023 budget targets a deficit of 6% of GDP, though backloading of expenditure into the second half of the year increases the risk of under-execution, a persistent issue particularly affecting growth-enhancing capital expenditure. The budget deficit is projected to remain high though on a declining path as expenditures are set to grow less dynamically than revenues. Revenue growth is expected to be supported by still high inflation and by the recovery in activity going forward. The expenditure side is projected to be impacted by the reduced spending on measures to mitigate the impact of high energy prices for vulnerable households, in line with



easing energy prices. Public debt is therefore set to rise moderately to a still low level of 37.2% of GDP by 2025.

Table II.30.1:

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	-5.0	1.7	3.8	4.2
Private Consumption		232.8	85.4	:	-7.2	17.1	-4.3	2.2	3.4	3.7
Public Consumption		48.1	17.6	:	4.4	3.0	3.2	4.1	4.1	4.0
Gross fixed capital formation		62.0	22.7	:	5.6	1.9	-6.8	1.4	4.3	6.4
Exports (goods and services)		111.4	40.9	:	-14.9	17.5	26.7	-2.1	6.5	7.9
Imports (goods and services)		190.8	70.0	:	-9.5	21.2	15.9	0.7	5.0	6.4
GNI (GDP deflator)		273.7	100.4	:	-9.9	12.3	-6.4	2.2	3.9	4.4
Contribution to GDP growth:	[	Domestic demand	d		-4.2	15.1	-4.6	2.9	4.5	5.2
	I	nventories			-4.9	4.9	0.7	0.2	0.0	0.0
	1	Net exports			0.8	-6.0	-1.0	-1.3	-0.8	-1.1
Employment				:	-4.4	1.1	2.2	4.0	0.8	1.4
Unemployment rate (a)					3.8	3.2	3.1	4.0	3.8	3.5
Compensation of employees / head	d			:	:	:	:	:	:	:
Unit labour costs whole economy				:	:	:	:	:	:	:
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				:	5.6	6.3	18.6	13.2	6.2	5.2
Consumer price index				:	3.8	5.1	28.7	14.1	4.7	5.1
Terms of trade goods				:	25.0	-7.8	-1.6	2.3	1.3	1.1
Trade balance (goods) (c)					-26.8	-30.6	-36.0	-33.8	-33.3	-33.1
Current-account balance (c)					-7.7	-12.6	-16.6	-13.3	-11.7	-10.8
General government balance (c)					-5.3	-1.9	-3.3	-5.6	-4.5	-3.5
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)					36.6	32.6	32.9	35.2	37.3	37.2

(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 GDI