



German  
Economic  
Team

01 | FEB 2024

**POLICY BRIEFING**  
**MOLDOVA**

# Economic outlook in Moldova and in the region

## EBA Business Outlook

EU Integration of Moldova and Perspectives for Business

Chisinau, 20 February 2024

by Dr Ricardo Giucci

# Outline

## 1. Economic outlook in Moldova

- GDP
- Inflation
- Exchange rate
- External trade in goods
- External trade in services
- Focus: drivers of growth

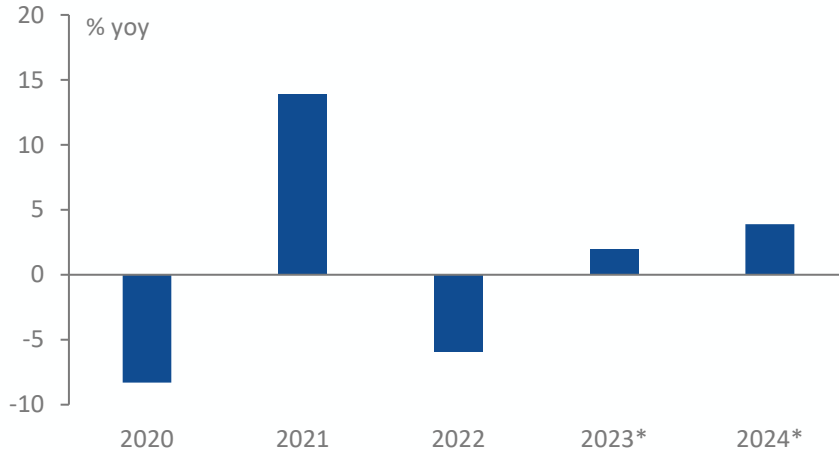
## 2. Regional outlook

- Ukraine
- Romania
- Serbia
- North Macedonia
- Kosovo

## 3. Regional comparison

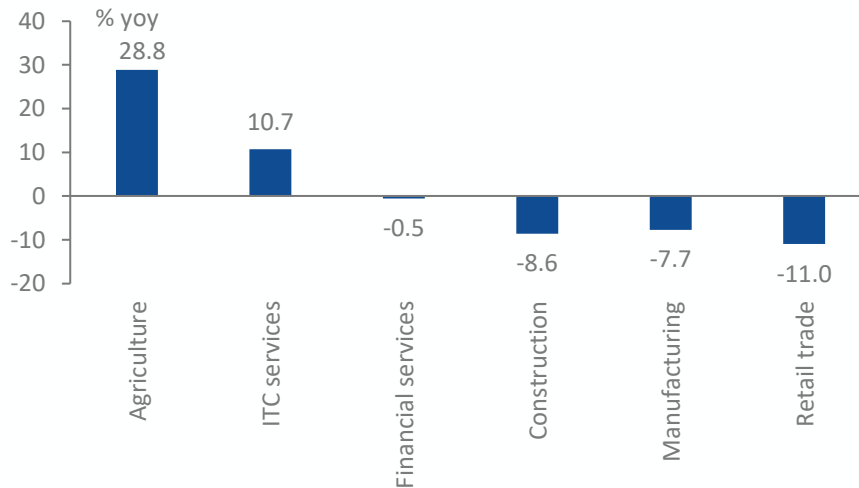
# 1. Outlook Moldova: Economic growth

## Real GDP growth



Sources: IMF, \*estimate/forecast

## Sectoral dynamics



Source: National Bureau of Statistics, data for 9M23

## 2023

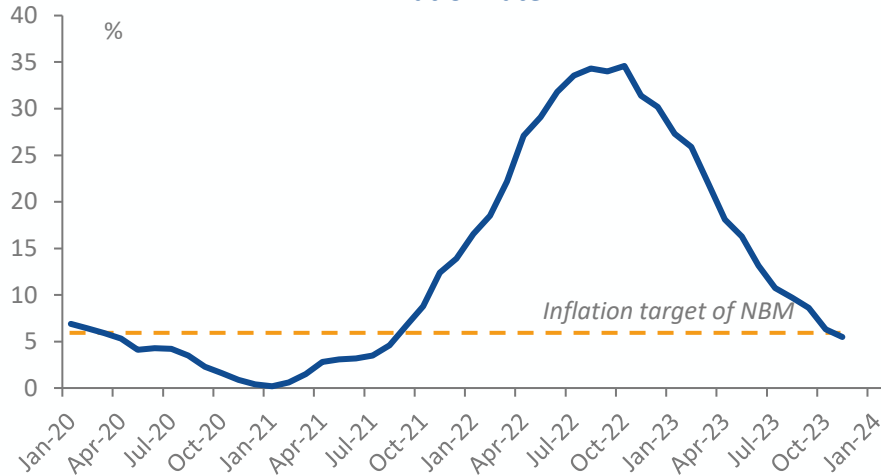
- » According to IMF, GDP grew by 2.0%
- » Main driver: pick-up in agricultural production
- » But also positive development of ITC services

## 2024

- » GDP forecast to grow by 3.9% (IMF)
- » Main drivers
  - Resumed private consumption due to low inflation
  - Strong harvest in 2023 still expected to boost growth in 2024
- Only moderate economic recovery after deep war-related 2022 recession
- Agro-food and ITC services provide significant opportunities; consumption to pick up in 2024

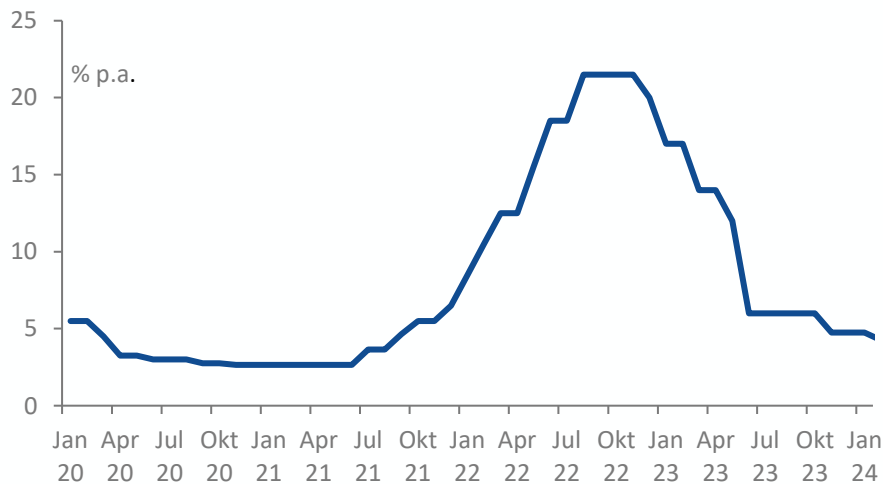
# Inflation and monetary policy

## Inflation rate



Source: NBM, Note: end of period

## Policy rate of NBM



Source: NBM, Note: end of period

## Inflation

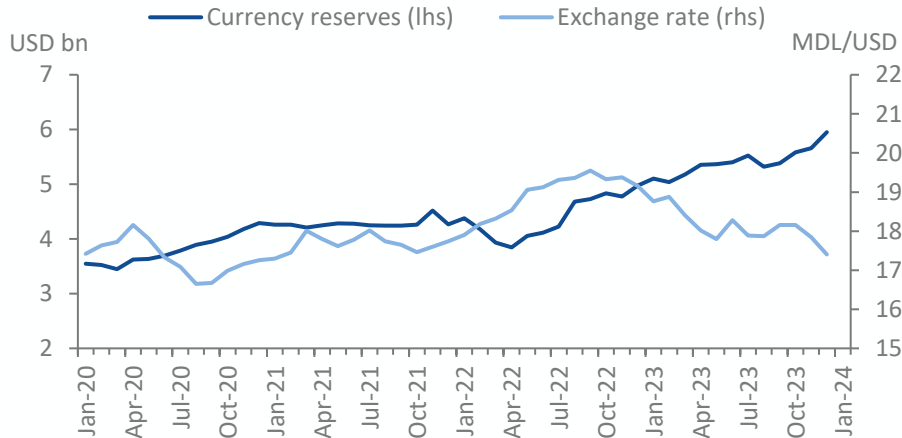
- » Strong decline after peak in 2022
  - Oct-22: 34.6%
  - Dec-23: 4.2%
- » Reasons
  - NBM textbook monetary policy reaction to inflation
  - Food and fuel prices back to pre-war levels
- NBM successful in bringing inflation back to its target

## Policy rates

- » Shift from tight monetary policy to an easing cycle
- » Policy rate went gradually down from 21.5% in Nov-22 to 4.25% in Feb-24
- Low policy rates facilitate investment

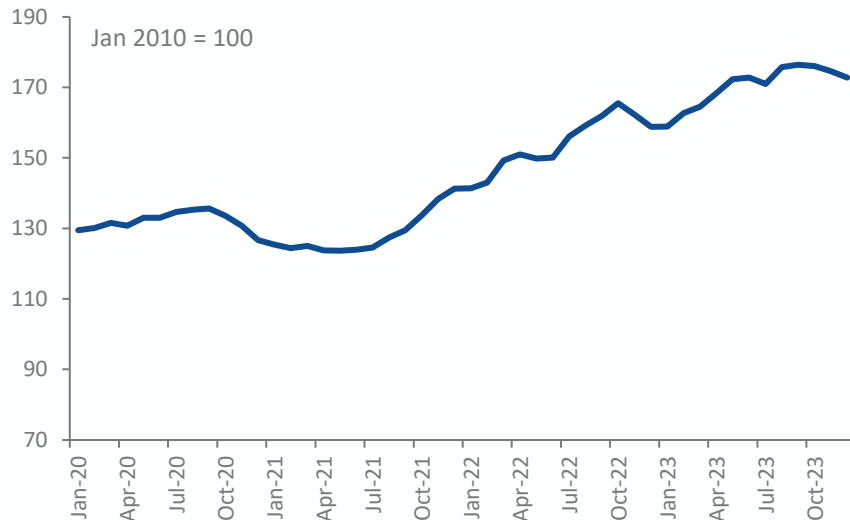
# Exchange rate

## Exchange rate and currency reserves



Source: NBM, end of period

## Real effective exchange rate



Source: IMF, based on Consumer Price Index, Note: higher value denotes a real effective appreciation

## Exchange rate and currency reserves

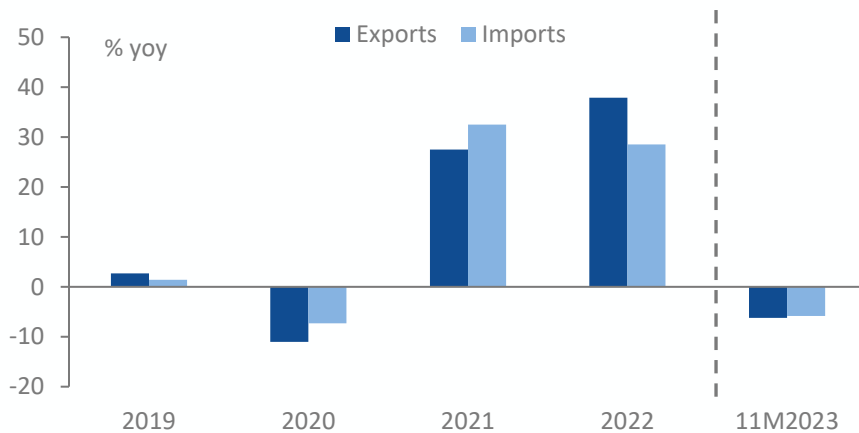
- » Significant appreciation pressure on the Moldovan leu
  - In Dec-23 the leu appreciated 9% yoy against the US dollar
  - NBM purchased FX; higher currency reserves

## Real effective exchange rate

- » Strong inflation in 2022 led to a real effective appreciation
- » Good for importers/consumption, but bad for exporters
- » IMF estimation: 20-25% overvaluation, with a projected decrease in the coming years
- Strong leu and higher currency reserves; real effective exchange rate to be monitored

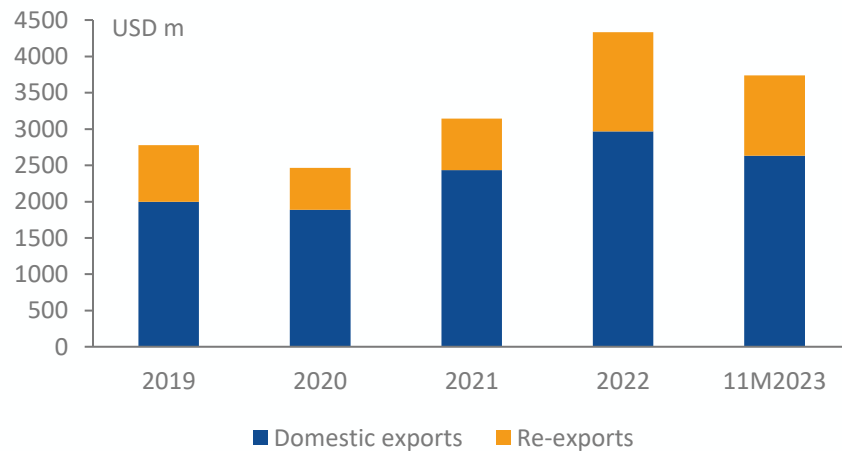
# External trade: goods

## Foreign trade in goods



Source: National Bureau of Statistics

## Domestic exports vs re-exports



Source: UN Comtrade, Moldova National Bureau of Statistics

## Trade dynamics

- » 2022: huge increase in trade (+31%)
- » 11M2023: significant decline (-6%)
- » Question: negative dynamics?
- » Answer: not really; main reason for decline: less re-exports to UKR

## Exports of goods

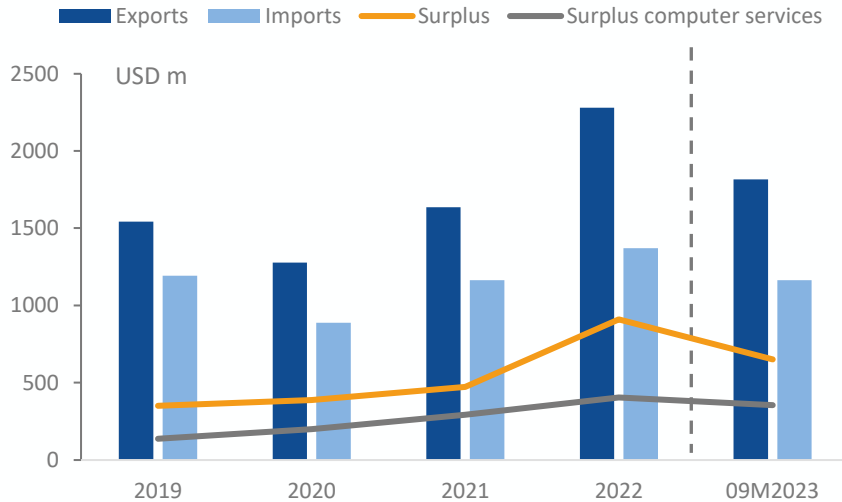
- » 2022: large re-exports of fuel to UKR contributed to rise in overall exports
- » 2023: lower exports due to decrease in re-exports; domestic exports rather stable

## Imports of goods

- » Decrease in imports of energy (fuel, gas and electricity) due to lower prices and less re-exports to UKR
- » Decline in overall trade in goods in 2023 mainly due to reduced re-exports to UKR and lower energy imports

# External trade: services

## Trade in services



Source: NBM

## Exports of services

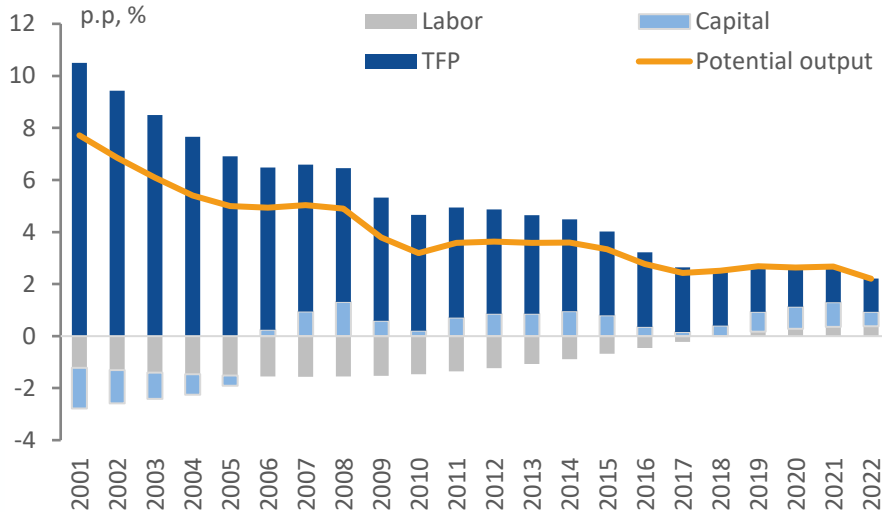
- » Very strong development of exports in 2022 and 2023
- » 2022: ca. USD 2.3 bn
- » 9M2023: +11.0% yoy
- » Important role of computer services; 22% of total service exports

## Imports of services

- Imports: +15.0% yoy in 9M2023
  - Mostly caused by increased travel services
- Significant surplus in balance of services
  - Dynamic development of computer services; opportunities for business

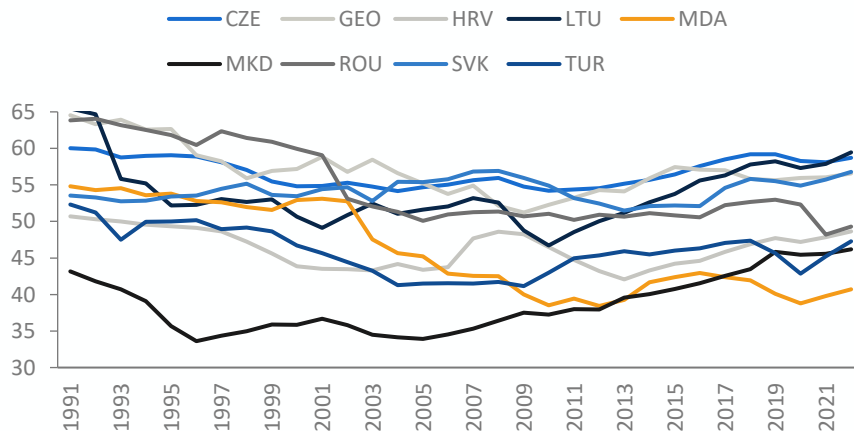
# Drivers of growth

## Decomposition of Moldova's potential growth



Source: own modelling

## Employment to population ratio over time: 15+



Source: Worldbank

## Potential growth trend

- » Potential growth was rather high in the period 2001-2016
- » Main reason: strong contribution of total factor productivity; catch-up process
- » Since 2017: much lower potential growth of ca. 2%
- » **Key question:** how to increase potential growth?

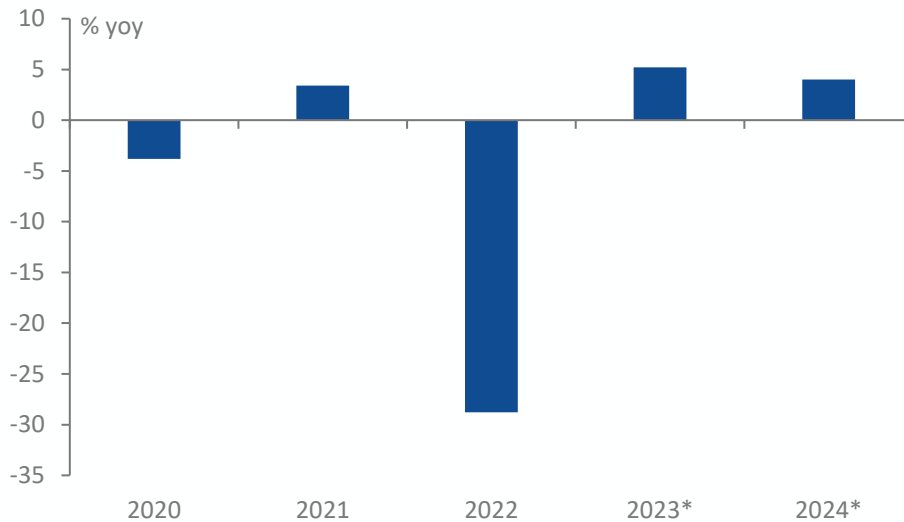
## Approach: labour supply

- » **SOEs:** additional labour could be available from SOEs due to strong overemployment suspected (new GET-study planned)
- » **UKR refugees:** about 120 thsd. recorded refugees, but little effect on labour market
- » **Participation rate:** 150 thsd. women are inactive due to family responsibilities
  - Kindergartens – mild constraint; elderly and disabled care – possibly a more serious problem in all communities
- **Structural reforms necessary to increase labour supply and potential growth**



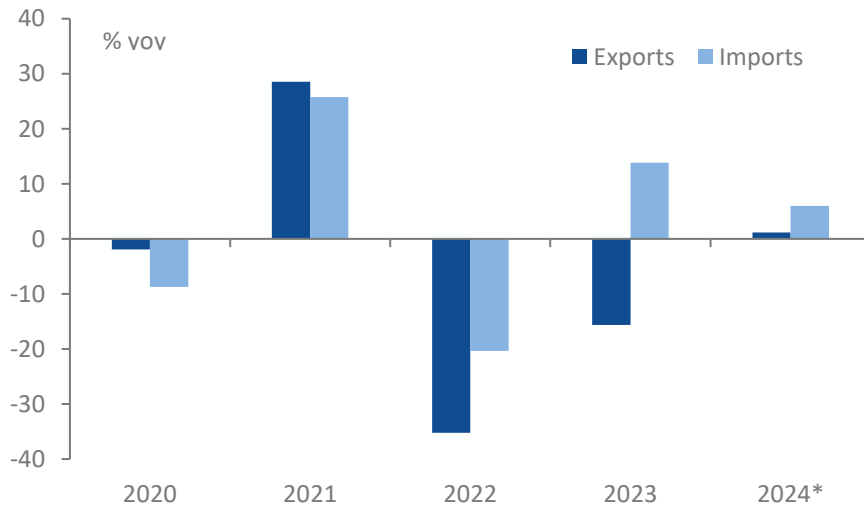
## 2. Regional outlook: Ukraine

### Real GDP growth



Source: Ukrstat, \*IER/GET forecast

### Foreign trade in goods



Source: Ukrstat, \*IER/GET forecast

### Economic situation

- » **GDP.** After sharp decline in 2022 due to the Russian invasion, growth picks up again in 2023/24
  - GDP will remain below pre-war level in the foreseeable future
  - Private consumption is the main driver of economic growth
- » **Trade.** Exports decreased significantly since the war; imports approach pre-war level
  - But: new sea corridor since Oct-23 contributes to higher exports

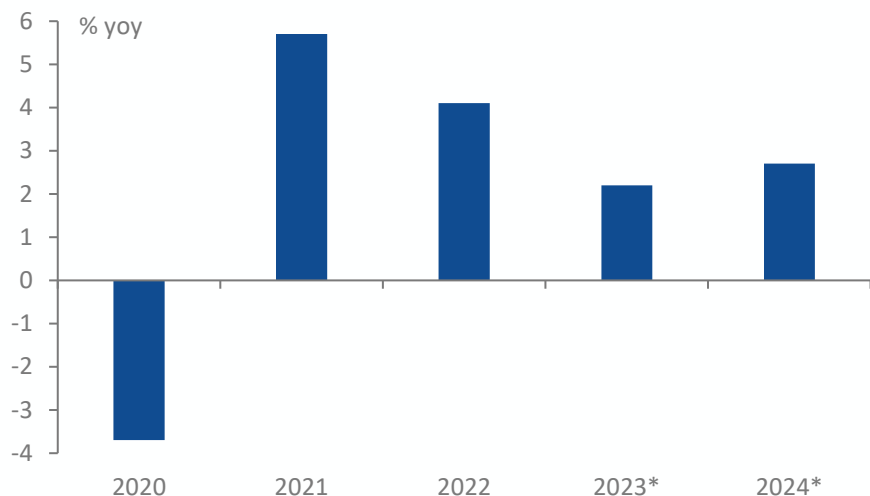
- » **FDI.** No information available

### Business opportunities

- » Short-term: private consumption stabilised as less people leave UKR and more return
- » Medium-term: reconstruction and EU membership efforts
- **Risky business environment due to war**

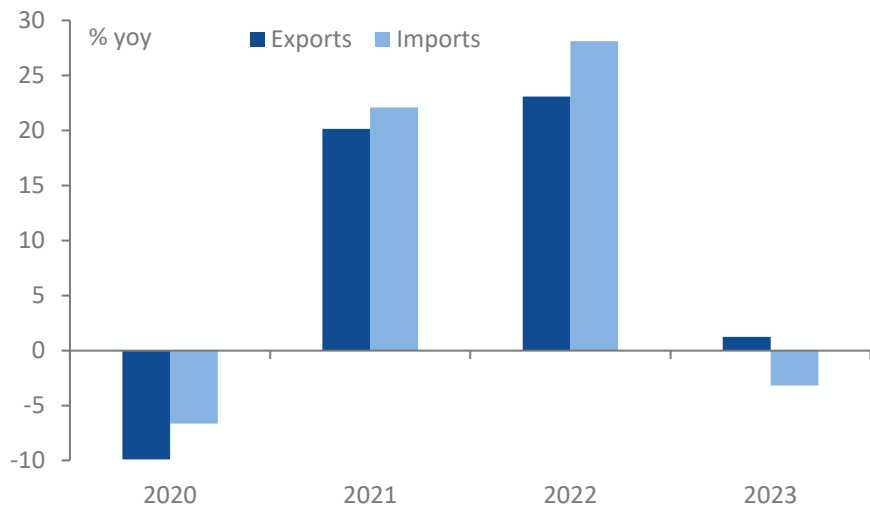
# Romania

## Real GDP growth



Source: Eurostat, \*IMF forecast

## Foreign trade in goods



Source: National Statistical Office

## Economic situation

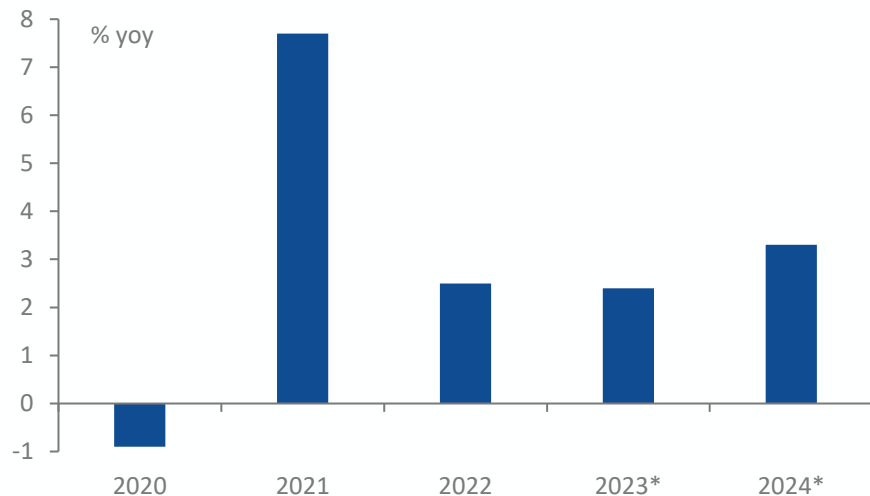
- » **GDP.** Growth slowed down in 2023, but is expected to rise to 2.7% yoy in 2024
  - Higher consumption expected in 2024 due to higher real wages
  - Also stronger investment forecast
- » **Trade.** Poor dynamics in 2023
  - Exports almost flat (+1% yoy)
  - Imports shrank by 3% yoy
- » **FDI.** High level, but moderate inflows
  - FDI inflows amounted to 0.3% of GDP in 9M2023
  - FDI/capita was at USD 7,158 in Sep-23

## Business opportunities

- » Moderate dynamics, main opportunities relate to private consumption

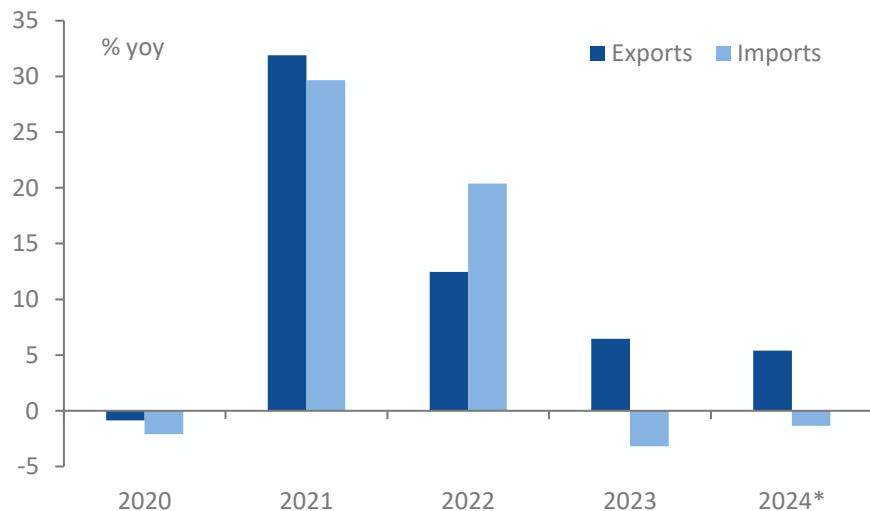
# Serbia

## Real GDP growth



Source: Eurostat, \*IMF forecast

## Foreign trade in goods



Source: National Statistical Office, \*IMF forecast

## Economic situation

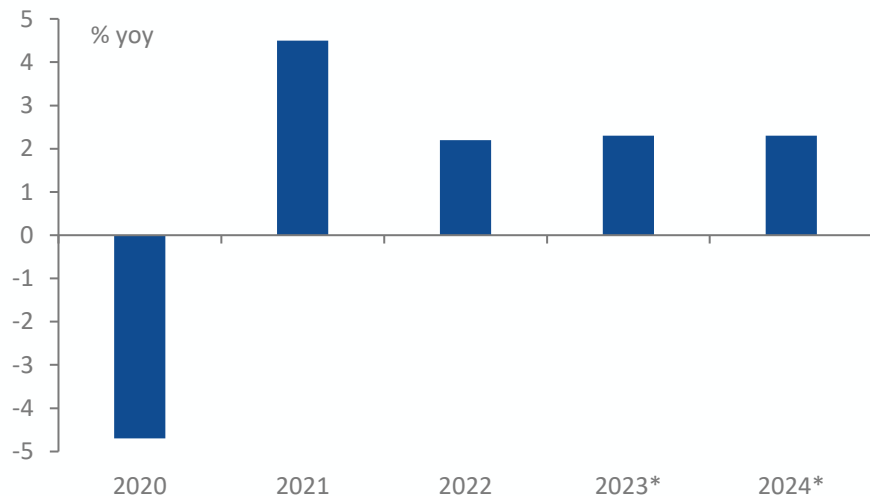
- » **GDP.** Moderate growth in 2023; GDP expected to grow by 3.3% in 2024
  - Main driver: net exports
- » **Trade.** Unequal development of exports and imports
  - Exports: dynamic trend in 2023/2024
  - Imports: decrease in 2023/2024, also due to lower energy prices
- » **FDI.** Strong level and inflows
  - FDI inflows amounted to 6.9% of GDP in 9M2023; 50% of flows from the EU
  - FDI/capita was at USD 8,692 in Sep-23

## Business opportunities

- » Strong destination for FDI
- » Opportunities in export sector

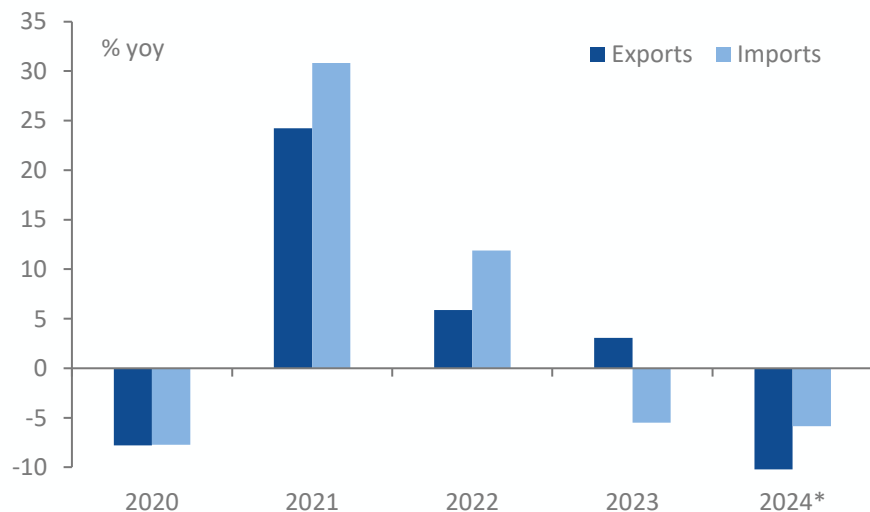
# North Macedonia

## Real GDP growth



Source: Eurostat, \*IMF forecast

## Foreign trade in goods



Source: National Statistical Office, \*IMF forecast

## Economic situation

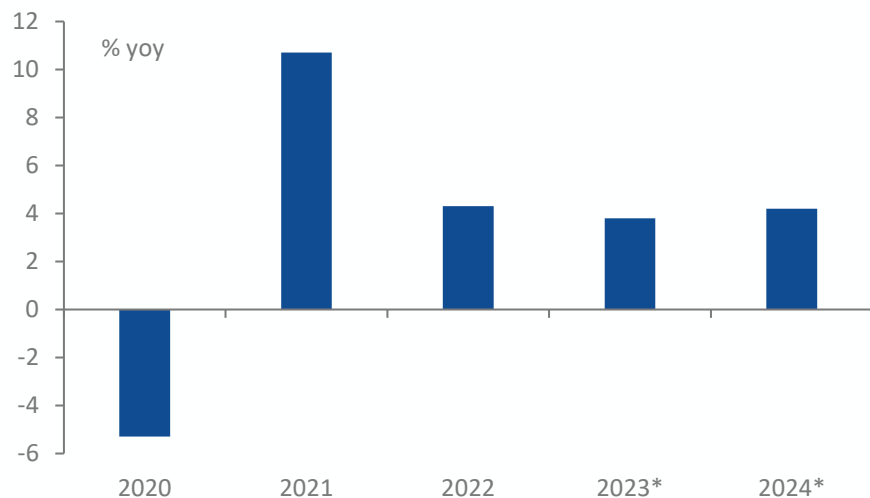
- » **GDP.** Only modest economic growth; slightly above 2% in 2023 and 2024
  - 2023: mostly driven by net exports
- » **Trade.** Outlook not promising
  - After a slight increase in 2023, exports due to go down by 10% in 2024
  - Imports went down by 6% in 2023; similar development expected for 2024
- » **FDI.** Strong attraction
  - FDI inflows were at 3.6% of GDP in 9M2023
  - FDI/capita was at USD 3,589 in 2022

## Business opportunities

- » N. Macedonia well-known for its industrial parks and international value chains
- » However, currently limited economic dynamics

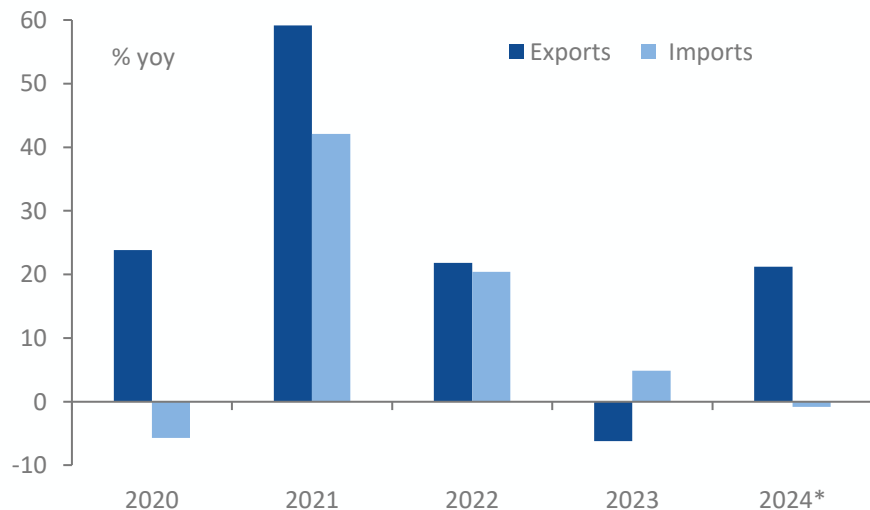
# Kosovo

## Real GDP growth



Source: Eurostat, \*IMF forecast

## Foreign trade in goods



Source: National Statistical Office, \*IMF forecast

## Economic situation

- » **GDP.** Considerable economic growth of ca. 4% in 2023 and 2024
  - Main driver: private consumption
- » **Trade.** Unequal dynamics
  - Exports to pick up strongly in 2024, after a decline in 2023
  - Imports likely to remain flat in 2024, despite considerable GDP growth
- » **FDI.** Below potential
  - FDI inflows amounted to 0.9% of GDP in 9M2023
  - FDI/capita at USD 3,676 in Sep-23

## Business opportunities

- » Considerable economic growth
- » Interesting destination for FDI, also due to large availability of labour force

### 3. Regional comparison

2024	GDP growth % yoy	Inflation % yoy	Export % yoy	Imports % yoy	Avg. gross wage* USD	FDI inflow** % of GDP	FDI/capita*** USD
<b>Moldova</b>	<b>3.9</b>	<b>5.0</b>	<b>8.0</b>	<b>3.8</b>	<b>661<sup>b</sup></b>	<b>1.9</b>	<b>2,114</b>
Ukraine	4.0 <sup>a</sup>	8.2 <sup>a</sup>	1.2	6.2	451	n. a.	n. a.
Romania	2.7	4.7	n. a.	n. a.	1,619	0.3	7,158
Serbia	3.3	4.0	5.4	-1.4	1,084	6.9	8,692
North Macedonia	2.3	4.5	-10.2	-5.9	945 <sup>c</sup>	3.6	3,589 <sup>d</sup>
Kosovo	4.2	3.7	21.2	-0.8	549 <sup>d</sup>	0.9	3,676

Source: National Statistical Offices, National Banks, IMF, \*11M2023, \*\*9M2023, \*\*\*Sep-2023, <sup>a</sup>IER/GET forecast, <sup>b</sup>9M2023, <sup>c</sup>Jan-2022, <sup>d</sup>2022

#### MDA

- Stable macroeconomic indicators (GDP, inflation, trade)
- Relatively low average wage provides opportunities for FDI
- However, low FDI-level indicates some problems, at least in the past

#### SRB

- Very successful in FDI attraction; positive exports development

#### KOS

- Opportunities due to labour force availability and relatively low wages

➤ **MDA is an interesting business destination in regional perspective**

# About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus\*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

*\*Advisory activities in Belarus are currently suspended.*

## CONTACT

Alina Kunde, Project Manager  
[kunde@berlin-economics.com](mailto:kunde@berlin-economics.com)

### German Economic Team

c/o BE Berlin Economics GmbH  
Schillerstraße 59 | 10627 Berlin  
Tel: +49 30 / 20 61 34 64 0  
info@german-economic-team.com  
www.german-economic-team.com

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