

# NEWSLETTER

## MOLDOVA



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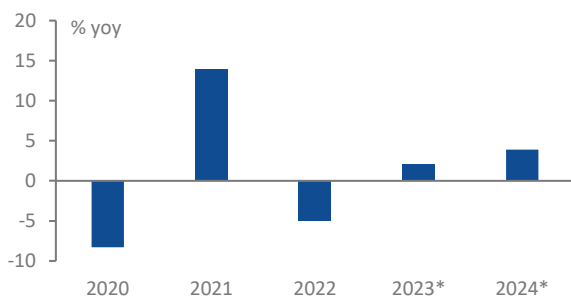
### Macroeconomic stability, but limited growth drivers

After a significant recession in 2022, Moldova's economy recovered moderately in 2023, with GDP estimated to grow by 2.0%. The primary driver of this growth is agricultural production. The growth forecast for 2024 is more optimistic at 3.9%, mainly due to an anticipated increase in private consumption. Inflation rates have returned to the tolerance band, reaching 4.2% in Dec-23 following successful policy by the National Bank of Moldova (NBM). However, the real appreciation of the Moldovan leu poses a risk of diminishing the international competitiveness. Foreign trade in goods experienced a downturn in 2023, partly due to a drop in re-exports, though service exports remained strong. After a lower-than-expected budget deficit of 5.0% of GDP in 2023, there's a decreased target deficit planned to 4.6% for 2024. Overall, the macroeconomic situation stabilised. Nevertheless, the economy still seeks significant growth drivers.

#### Moderate economic outlook

After the recession in 2022, Moldova's economic outlook for the subsequent years has been moderate. In 2023, the International Monetary Fund (IMF) reported a 2.0% (yoy) growth in GDP, primarily attributed to increased agricultural production. Looking ahead to 2024, a GDP growth of 3.9% is forecast, driven by resumed private consumption due to low inflation and the continued positive impact of the strong harvest in 2023. However, both figures are likely to be revised downward. Consequently, Moldova is experiencing only a moderate economic recovery following the deep recession caused by war-related impacts in 2022.

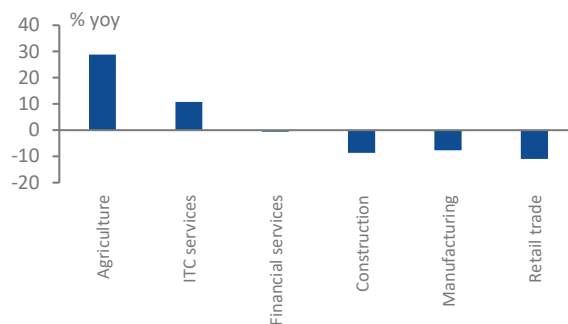
#### Real GDP growth



Sources: IMF, \*estimate/forecast

The sectoral dynamics for 2023 present a mixed picture. Agriculture grew by 28% (yoy). Similarly, the IT sector experienced notable growth, with a 10% (yoy) rise. However, sectors such as manufacturing, construction, and retail encountered difficulties.

#### Sectoral dynamics

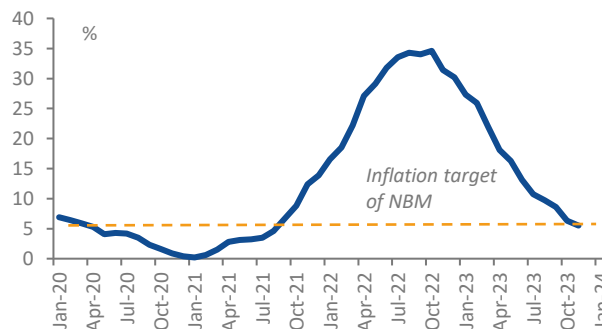


Source: National Bureau of Statistics, data for 9M23

#### Stabilisation of macroeconomic conditions

After peaking in 2022 at almost 35%, inflation in Moldova experienced a substantial decline. This was primarily attributed to the effective implementation of monetary policies by the NBM and the drop in food and fuel prices. The NBM gradually reduced the policy rate from 21.5% in November 2022 to 4.25% by February 2024, transitioning from a tight monetary policy to an easing cycle.

#### Inflation rate



Source: NBM, Note: end of period

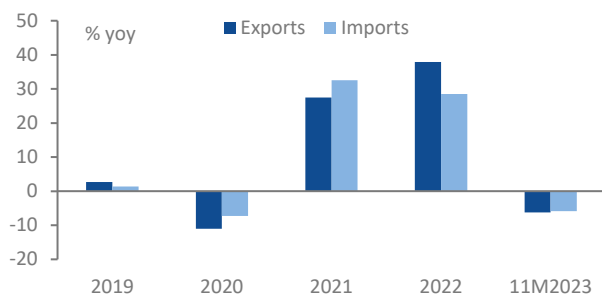
The strong inflation in 2022 resulted in a real effective appreciation of the leu. The situation presents a mixed outcome: it is advantageous for importers by making imports less expensive, but it challenges exporters by increasing the international price of Moldovan products. The IMF estimates the leu's overvaluation at 20-25%, expecting a gradual adjustment in the forthcoming years. Hence, continuous monitoring of real exchange rates is crucial, as they significantly influence Moldova's export competitiveness.

### Trade in goods sees an overall drop in 2023

In the first eleven months of 2023, Moldova saw a notable 6.2% (yoy) decline in goods exports. This downturn was mainly due to reduced exports of oilseeds, oleaginous fruits, their derivatives, and fuel. Similarly, goods imports also fell by 5.8% (yoy) during the same period, with significant drops in fuel, gas, and electricity imports.

The overall decline in trade in goods in 2023 was primarily linked to reduced energy imports and re-exports. Moldova played a key role as an intermediary for Ukrainian trade with the EU in 2022, importing fuel for re-export to Ukraine, along with oilseeds, fats, oils, and cereals to the EU. This resulted in a sharp increase in trade in 2022. However, 2023 saw a decrease in re-exports with Ukraine. Therefore, the dip in re-exports was a major factor in the overall export decline rather than a significant fall in domestic exports.

#### Foreign trade in goods



Sources: National Bureau of Statistics

### Strong performance in service exports

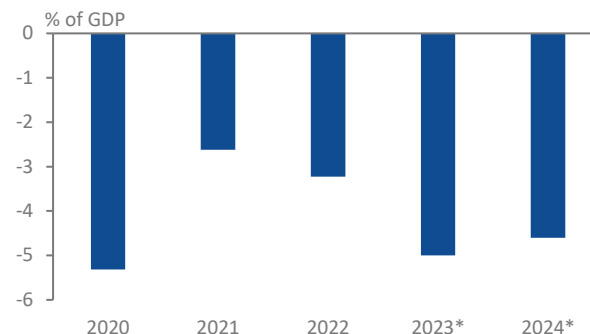
The service sector showed significant growth in 2022, which continued into 2023, with exports reaching approximately USD 2.3 bn in 2022 and an 11% (yoy) increase in the first nine months of 2023. Computer services played a crucial role in this growth, constituting 22% of total service exports.

### Budget under-execution

In 2023, the budget deficit is projected to reach 5.0% of GDP, slightly under the initial target of 6.0%. This shortfall is primarily attributed to the budget's under-execution, as only 70% of the anticipated investments were executed. This trend of not fully utilising the budget, particularly in public investment, remains a persistent issue for Moldova, undermining its medium-term development objectives and ability to stimulate economic growth. Factors such as savings from energy subsidies and a reduced wage bill further contributed to a lower budget deficit. Looking forward, the 2024 target deficit is set at 4.6% of GDP. Spending priorities include ad-

ressing capacity constraints in the civil service, promoting private sector development, and increasing infrastructure investment.

#### Budget balance



Source: IMF, \*estimate/forecast

### Conclusions and outlook

Moldova's economy is experiencing only a moderate economic recovery after a substantial recession in 2022. The ongoing war in Ukraine still significantly impacts Moldova's economic landscape. Nonetheless, positive signs such as decreasing inflation and optimistic expectations for the upcoming harvest contribute to a cautiously positive economic outlook.

This newsletter is based on the 19<sup>th</sup> issue of our [Economic Monitor Moldova](#).