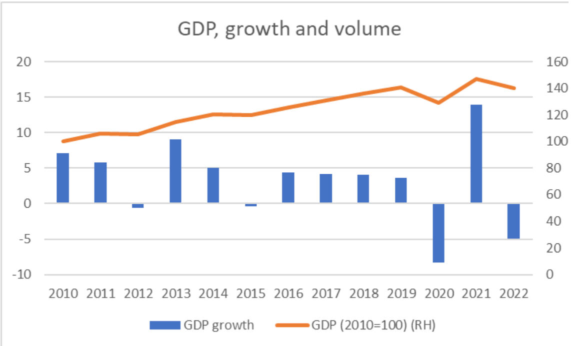
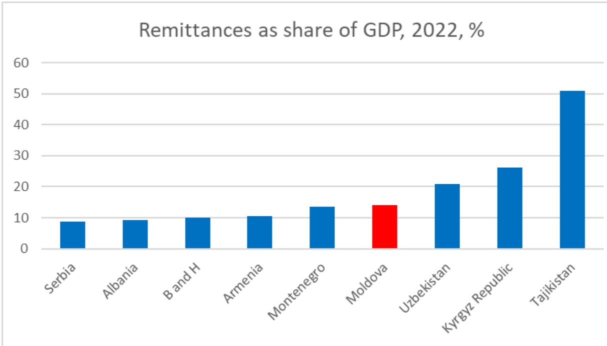
REPUBLIC OF MOLDOVA

Despite sustained growth, economic disparities remain substantial

The Moldovan economy expanded over the last decade, growing at a compound growth rate of 2.9%. The important agricultural sector, which accounts for around 10% of GDP, has been a source of volatility. The COVID-19 crisis represented a severe setback from which it had already bounced back by the time the negative spillovers of the war in Ukraine hit the country, clouding economic prospects. Years of sustained growth have resulted in significant reductions in poverty. However, there is a large income and access to services gap between urban and rural areas. Remittances, accounting for around 15% of GDP, are critical to complement income and plug a persistently large trade deficit.

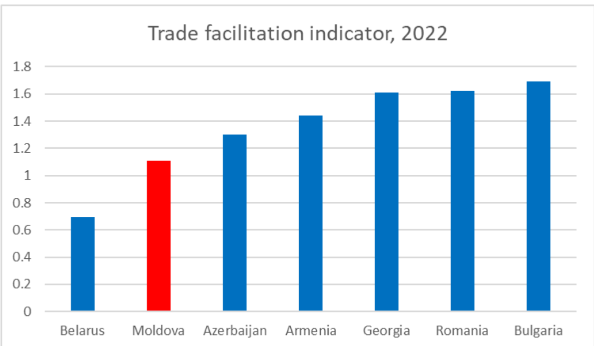


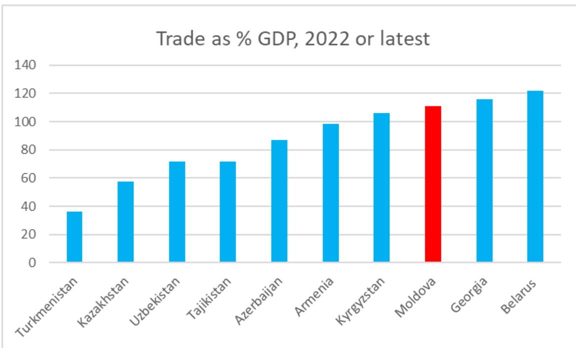


Source: IMF, World Bank

An open economy but high trading costs hold back exports

Moldova is a small economy, displaying a high degree of integration with global markets. However, most of the openness, as measured by the trade to GDP ratio, reflects large imports. A landlocked country, it has nevertheless a river-to-sea Danube port, which is now being used as an alternative route for Ukrainian grain exports. Increased volume flows are putting pressure on logistics and increasing prices. Trade facilitation indicators suggests there is room for improvement to facilitate connectivity while the quality of roads and other infrastructure is relatively low.

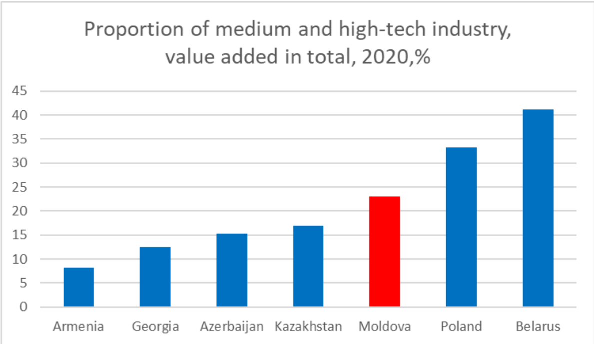


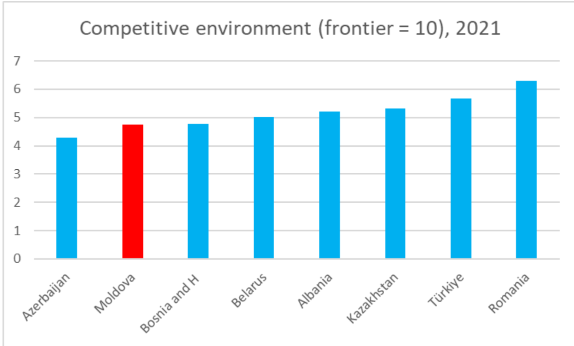


Source: OECD, World Bank Development Indicators

Labour market shortcomings constrain growth potential, despite a competitive environment

The economic dynamism of the Republic of Moldova is hampered by a still large state footprint and shortcomings in the competitive environment. Large migratory outflows have provided a critical source of income but resulted in the loss of human capital and accelerated aging. Remittance-led consumption has favoured the development of non-tradables and the export basis remains narrow. A high degree of employment informality contributes to poor productivity performance. The development of the private sector requires improving the regulatory framework but also better access to critical inputs.

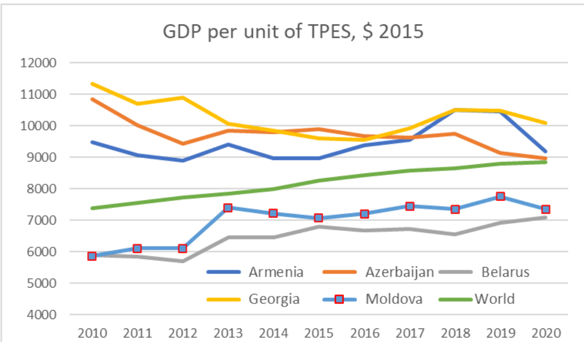


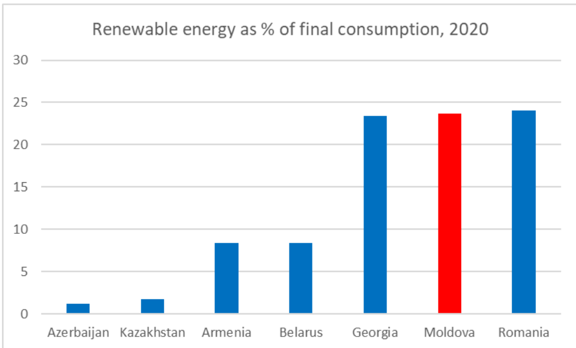


Source: SDG UNECE database, EBRD

Energy dependency and climate change vulnerability add urgency to the green transformation

Energy efficiency is rather low, although it has been improving in recent years. The country has a large negative energy balance, with undiversified imports that make it very vulnerable to disruptions. Energy self-sufficiency is among the lowest in the world, with only around one fifth of energy demand covered by domestic production. Moldova has high potential for renewable energy but its share in generation and consumption, although not among the lowest in the region, remains limited, consisting mostly of biomass. Vulnerability to climate change is high, with negative consequences to the important agriculture sector, which is undermined further by the water management shortcomings.

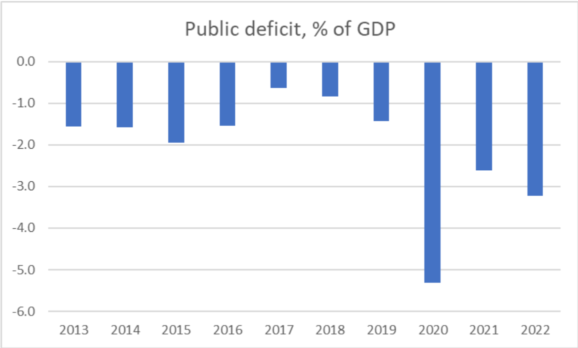


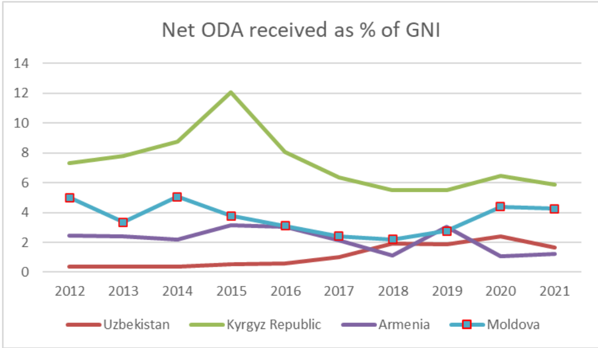


Source: IEA, SDG UNECE database

Private engagement will be key for infrastructure development

The Republic of Moldova faces severe fiscal constraints, which limit its ability to finance public services and support growth. Almost two thirds of public debt is owned to foreign creditors, mostly multilateral financial institutions. The country has received growing amounts of ODA in recent years, reaching 4.3% of GNI in 2020-21. Recent shocks (COVID-19, Ukrainian war) have strained public finances further. Addressing the infrastructure gap would require increased private participation, including PPP.





Source: IMF, World Bank Development Indicators