

**EXECUTIVE  
BOARD  
MEETING**

EBS/20/12  
Supplement 3

March 10, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Moldova—Staff Report for the 2020 Article IV Consultation and Sixth Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements—Draft Press Release**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Wednesday, March 11, 2020**

Publication: Yes\*

Questions: Mr. Atoyan, EUR (ext. 38814)

**\*Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the press release will be published.**





## IMF Executive Board Concludes 2020 Article IV Consultation with Moldova

FOR IMMEDIATE RELEASE

**WASHINGTON, DC – March 1x, 2020.** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with the Republic of Moldova on March 11, 2020. The Board also completed the sixth and final review of Moldova’s economic performance under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements. A related press release [HYPERLINK] was issued separately.

Moldova’s economic growth remained solid in the first three quarters of 2019, with output expanding nearly 5 percent, supported by strong domestic demand. External demand remained favorable but net trade continued to be a drag on growth. Unemployment remained low by historical standards, at around 4 percent. Inflation breached the upper bound of the band around the National Bank of Moldova (NBM)’s target in late 2019, reaching 7.5 percent, largely driven by food prices and a turnaround in regulated prices—as the effect of previous tariff cuts dissipated—and by the impact of robust aggregate demand on core inflation. The fiscal deficit significantly overperformed the program target, despite widening to 1.5 percent of GDP in 2019. While revenues slightly underperformed, this was more than offset by under-execution in both current and capital expenditure, partly linked to uncertainty about external financing. Public debt declined and remains low, below 30 percent of GDP. The current account deficit likely narrowed slightly to 9.5 percent but remains large as remittance inflows fell short of compensating for the structural trade deficit. Despite heightened political uncertainty, the leu remained relatively stable, and foreign exchange reserves remained adequate.

The macroeconomic outlook is cautiously positive, but subject to risks. Growth is forecast to slow to 3.8 percent in 2020, driven by weaker external demand and more modest agricultural output. Domestic demand should remain robust, supported by a widening of the fiscal deficit to 3.9 percent of GDP due to a large increase in budgeted capital spending (although the growth impact of this spending will be limited due to public investment management weaknesses). While this growth composition will put pressure on the trade deficit, the current account is expected to widen only moderately given improved income inflows. Inflation is projected to return to the 5 percent target in 2020, largely driven by fading food price pressures. With the output gap broadly closed and in the absence of structural reforms, medium-term growth is projected to remain near 4 percent. Risks, however, are on the rise. Domestically, the resurfacing of political instability, policy reversals, or reform fatigue could hurt confidence and limit external financing options. Regional and global spillovers from a protracted slowdown in major trading partners and geopolitical and trade tensions cannot be ruled out.

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<sup>1</sup> Under Article IV of the IMF’s Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country’s economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Looking ahead, resolute progress in tackling outstanding and widespread governance and institutional vulnerabilities in Moldova would strengthen public trust in state institutions and popular support for the reform agenda. Despite successful stabilization efforts and significant progress made on banking sector supervision, weak oversight of the non-bank financial sector, gaps in Moldova's AML/CFT framework, and lack of progress on asset recovery are recurring sources of concern. Furthermore, perceptions of corruption and weak rule of law are entrenched, the regulatory framework is not properly implemented or enforced, informality is high, and a large state-owned enterprise (SOE) sector poses fiscal risks and undermines competition and productivity. As such, the authorities are committed to stepping up their policy efforts to prioritize strengthening the rule of law, reforming Moldova's judiciary system, reforming SOEs, building capacity and strengthening key institutions. Addressing these vulnerabilities could have significant growth dividends through faster capital accumulation, reduced labor and human capital headwinds from extensive emigration, and higher productivity.

### **Executive Board Assessment<sup>2</sup>**

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Moldova: Selected Economic Indicators, 2016–2021 <sup>1/</sup>

	2016	2017	2018	2019	2020	2021
				Country Report 19/305	Proj.	Proj.
	(Percent change, unless otherwise indicated)					
<b>Real sector indicators</b>						
Gross domestic product						
Real growth rate	4.4	4.7	4.0	3.5	4.2	3.8
Demand	2.6	6.8	6.4	5.8	6.3	5.7
Consumption	2.6	4.7	3.2	4.4	3.0	2.9
Private	2.9	5.3	3.8	3.6	3.4	3.3
Public	0.6	1.1	-0.1	9.3	0.9	1.0
Gross fixed capital formation	-0.9	8.0	14.0	2.7	13.6	8.9
Net Exports of goods and services	5.9	-11.2	-14.3	-5.8	-5.4	-13.0
Exports of goods and services	9.8	10.9	4.8	8.8	7.8	5.0
Imports of goods and services	2.8	11.0	8.9	7.5	6.7	8.6
Nominal GDP (billions of Moldovan lei)	160.8	178.9	190.0	207.3	208.7	228.4
Nominal GDP (billions of U.S. dollars)	8.1	9.7	11.3	11.7	11.9	12.4
Consumer price index (average)	6.4	6.6	3.1	4.9	4.9	5.7
Consumer price index (end of period)	2.4	7.3	0.9	7.5	7.5	5.0
GDP deflator	5.7	6.3	2.1	5.4	5.4	5.4
Average monthly wage (Moldovan lei)	5,084	5697	6,446	7,320	7,320	7,953
Average monthly wage (U.S. dollars)	255	308	384	413	417	432
Unemployment rate (annual average, percent)	4.2	4.1	3.0	3.0	3.0	3.0
	(Percent of GDP)					
<b>Saving-investment balance</b>						
Foreign saving	4.1	6.1	10.7	9.5	9.5	9.7
National saving	18.1	16.2	13.6	14.7	16.6	18.9
Private	16.4	13.7	11.3	13.6	14.7	18.4
Public	1.8	2.4	2.3	1.1	1.9	0.5
Gross investment	22.2	22.3	24.3	24.3	26.2	28.6
Private	19.1	19.1	20.9	20.2	22.7	23.6
Public 2/	3.1	3.2	3.4	4.1	3.4	5.0

### Moldova: Selected Economic Indicators, 2016–2021 (Concluded)

<b>Fiscal indicators (general government)</b>							
Primary balance 3/	-0.7	0.3	-0.4	-2.2	-0.8	-3.1	-2.1
Overall balance 3/	-1.8	-0.8	-1.1	-3.0	-1.5	-3.9	-2.9
Stock of public and publicly guaranteed debt	36.9	32.7	30.6	31.5	29.3	30.8	31.2
(Percent change, unless otherwise indicated)							
<b>Financial indicators</b>							
Broad money (M3)	10.2	9.4	7.8	16.1	8.2	14.4	...
Velocity (GDP/end-period M3; ratio)	2.3	2.3	2.3	2.1	2.3	2.2	...
Reserve money	12.1	11.2	17.7	13.1	7.6	14.4	...
Credit to the economy	-7.6	-3.4	4.1	4.4	11.5	4.2	...
Credit to the economy, percent of GDP	24.5	21.3	20.9	20.0	21.2	20.2	...
(Millions of U.S. dollars, unless otherwise indicated)							
<b>External sector indicators 4/</b>							
Current account balance	-330	-592	-1211	-1116	-1134	-1204	-1251
Current account balance (percent of GDP)	-4.1	-6.1	-10.7	-9.5	-9.5	-9.7	-9.5
Remittances and compensation of employees (net)	1,326	1,494	1,672	1,813	1,759	1,890	2,012
Gross official reserves	2,206	2,803	2,995	3,025	3,060	3,071	3,034
Gross official reserves (months of imports)	4.9	5.3	5.5	4.7	5.2	4.9	5.1
Exchange rate (Moldovan lei per USD, period average)	19.9	18.5	16.8	...	17.6	...	...
Exchange rate (Moldovan lei per USD, end of period)	20.0	17.1	17.1	...	17.3	...	...
Real effective exchange rate (average, percent change)	2.4	10.5	9.1	1.5	2.1	...	...
External debt (percent of GDP) 5/	76.8	70.5	66.4	64.9	63.6	64.7	64.9
Debt service (percent of exports of goods and services)	13.1	11.8	14.4	14.2	12.9	14.0	13.5
Sources: Moldovan authorities; and IMF staff estimates.							
1/ Data exclude Transnistria.							
2/ Includes externally financed on-lending to SOEs as of 2016.							
3/ Includes net on-lending to SOEs.							
4/ Balance of Payments (BOP) classification is revised in line with the Sixth Balance of Payments Manual (BPM6). Review columns reflect BOP according to BPM5 classification.							
5/ Includes private and public and publicly guaranteed debt.							