The World Bank in Moldova

Country Snapshot

An overview of the World Bank's work in Moldova

April 2017

MOLDOVA	2016
Population, million	3.6
GDP, current US$ billion	6.75
GDP per capita, current US$	1,900
School Enrollment, primary (% gross) (2016)	91.8
Life Expectancy at birth, years (2015)	71.5

At a Glance

- Moldova registered robust growth in 2016, supported by favorable conditions in agriculture. Poverty declined on the back of higher wages and lower inflation.
- Driven by consumption and fiscal policy, the growth momentum will be maintained in the medium term but will be below historical averages. Poverty is likely to resume its downward trend.
- Although Moldova is slowly rebuilding its macroeconomic buffers after the banking fraud episode, major challenges related to governance, particularly in the financial sector, and the efficiency of public spending remain.
- Over the long term, private sector jobs must replace remittances and pensions as the driver of poverty reduction.

Country Context

Moldova is a small lower-middle-income economy. Although the poorest country in Europe, it has made significant progress in reducing poverty and promoting inclusive growth since the early 2000s. The economy has expanded by an average of 5% annually, driven by consumption and fueled by remittances. The latter account for a quarter of GDP, among the highest shares in the world.

European integration has anchored the Government's policy reform agenda. The Association Agreement and a Deep and Comprehensive Free Trade Agreement between Moldova and the European Union (EU) were signed in June 2014. A vulnerable political system, polarized society, adverse external environment, and climate-related shocks are Moldova's biggest economic challenges.

Transparency, accountability, and corruption are crucial concerns. With higher public debt and damaged business confidence, the macroeconomic framework has been severely damaged, while external budget support only resumed late in 2016, after an agreement with the International Monetary Fund (IMF) had been reached. Macroeconomic and fiscal stabilization is also an important short-term challenge.

With parliamentary elections due in 2018, the Government has a short window of opportunity to implement ambitious proposals in public administration and investment climate reform.

Moldova faces other important challenges. Large-scale emigration, combined with decreasing fertility rates, has reduced the population by 2% per year and hastened the pace of aging in Moldova, putting pressure on the pension system.

The World Bank and Moldova

The FY14–17 Country Partnership Strategy (CPS) is providing support, through a mix of analytics, advice, and financing, to help reduce poverty and boost shared prosperity by: increasing competitiveness; enhancing human capital and minimizing social risks; and promoting a green, clean, and resilient Moldova.

A new Country Partnership Framework (CPF) is under preparation to support Moldova's emerging transition toward a new, more sustainable, and inclusive growth model. Grounded in national priorities and the Systematic Country Diagnostic and building upon the results of the current CPS, three strategic priorities—strengthening the rule of law and the accountability of economic institutions, improving inclusive access to and the efficiency and quality of public services, and enhancing the quality and relevance of education and training for job-relevant skills—define and inform the CPF's three pillars: economic governance, service governance, and skills development. Climate change is a also cross-cutting theme.

Key Engagement

Moldova is struggling with the legacy of a vast bureaucracy and excessive and redundant procedures that result in delays in the provision of public services. After adopting an e-transformation strategy a few years ago, the country has been working toward more open, less cumbersome processes. Modern technology and Moldova's decision to move closer to the EU represent changes designed to empower citizens, improve government services, and help businesses grow.

The US$20 million Bank-supported Governance e-Transformation (GeT) project gives Moldovans around-the-clock access to government documents and public services. By creating an electronic trail, it ensures transparent decision making plus a speedier, more efficient service. Moldova has won several international awards, including from Transparency International, for its Bank-supported work in this area.

Areas of support under GeT include the Government's Cloud Computing Infrastructure (MCloud) and a select number of e-government services, shared platforms, and applications. Thirty-nine public institutions have migrated their information systems to the MCloud, i.e., almost 50% of all central public authorities. An estimated US$1.8 million in savings have been generated for MCloud user agencies over the past three years.

E-Governance capacity building through the training of 2,461 civil servants included the launch of an Open Government Data and a General Government Services Portal, facilitating interaction between more than 495,000 people (51.8% women) and the government.

Twenty-eight sectoral and cross-sectoral enabling services have been launched, and for the most popular products, such as e-criminal record and e-licensing applications, some 99% of clients have transitioned to an online application process. This has significantly reduced the administrative burden and opportunities for corruption. The uptake of public e-services has reached 27% (26–35-year age group), and the share of users satisfied with service quality is close to 66%.

WORLD BANK PORTFOLIO

No. of WB Projects: 8

IDA Net Commitments: $250.2 Million

IBRD Net Commitments: $83.1 Million

IFC Committed Portfolio: $53.8 Million ($50.9 Million outstanding)

MIGA Exposure: $24.6 Million in 4 projects

GEF: $4.4 Million in 1 grant

Recent Economic Developments

Moldova's economy recovered from the 2015 recession, growing 4.1% in 2016. Wage increases and a good harvest supported private consumption and inventory growth, cumulatively contributing 5.4% to overall growth. At the same time, the contributions of net exports (-1.3%) and fixed investments remained negative (-1.1%) as access to financing remains constrained. On the production side, the agriculture (18.2% increase) and trade sectors were the main sources of growth (both contributing 3.1%), while the added value of the financial sector remained negative (-0.9%) due to weak intermediation activity.

Mostly due to the base effect, consumer inflation since September 2016 has been below the target corridor, reaching its lowest point in December 2016, registering 2.4% before returning to the target range. In February 2017, inflation registered 4.7% year-on-year (y-o-y). The National Bank stopped the accommodative monetary policy stance of early 2016, and the base interest rate has been set at 9% since October.

An agreement with the IMF and financial assistance from the World Bank, EU, and Romania eased the Government's financing constraints in the second half of 2016. Still, budget execution (1.8% of the GDP deficit) was significantly below the plan (3.2%), as some expenditures were not financed in full due to late December disbursements of external budget support. Public expenditures fell by almost 2% in real terms, largely through lower capital expenditures, as social expenditures and the wage bill were maintained at budgeted levels.

Higher wage growth and employment levels reduced the moderate poverty rate (US$5/day, 2005 purchasing power parity [PPP]) by 2% in 2015 to 38.2%. The extreme poverty rate (US$2.5/day, 2005 PPP) was stable at 2.9%. Declining unemployment, a robust real wage increase, declining prices, and stable social expenditures are likely to translate into a reduction of poverty levels in 2016.

Economic Outlook

Supported by consumption and a fiscal stimulus, growth momentum will be maintained in 2017. A supportive agricultural year will boost growth to 4% in 2017. Following the under-execution in 2016, with unlocked external assistance in 2017, the fiscal deficit will widen by 0.7 percentage points to -2.5% of GDP.

Inflationary pressures stemming from increased liquidity in the system, an adjustment of the utility tariffs, and a recovery in economic activity will be higher in the first half of the year, pushing inflation in the upper bound of the target corridor. In the second half, inflationary pressures are expected to moderate, averaging 4.9% for the year.

In the medium term, growth will slow to 3.7% in 2018 and 3.5% in 2019. The base case assumes a modest recovery in remittances, a supportive fiscal stance, and better financial intermediation and business environment. With parliamentary elections due in 2018, the fiscal deficit is projected to widen to 3% of GDP.

Poverty is projected to decline further against the background of positive GDP and wage growth and wider fiscal space. However, the pace of poverty reduction is projected to slow down due to increasing utility tariffs, inflationary pressures, and continued structural labor market weaknesses. Over the forecast period until 2019, the PPP US$5/day poverty headcount is projected to decline by some additional 5 percentage points.

Project Spotlight

Keeping Chisinau warm, heating bills down, and carbon emissions lower.

The average temperature in Moldova's capital, Chisinau, is -5 degrees Celsius in January and February. According to a World Bank analysis, each January–March, a fifth of Moldovans' spending is on energy, mostly to stay warm. Across the year, the poorest 20% of Moldovans spend over 20% of their income on energy.

The new pumping station at Termoelectrica JSC helped to significant energy savings and CO_2 emissions reduction.

The Moldova District Heating Efficiency Improvement Project (DHEIP) is helping to improve the operational efficiency and financial viability of Chisinau's District Heating company.

The project financed a new pumping station at Termoelectrica JSC. The contract was implemented in eight months and resulted in huge energy savings, helping to keep bills down. In addition, there has been a reduction of 48.5% of CO_2 emissions. Residents of Chisinau's apartment blocks appreciate the new individual heating meters financed by the project, as they can now turn their heating down instead of opening windows to let the heat out.

To improve Termoelectrica's financial sustainability, the World Bank has advised the regulator, ANRE, on tariffs, in collaboration with the IMF. It has also advised the Government on how to use its targeted social benefits—the heating allowance and Ajutor Social—to mitigate the impact of tariff increases on the poorest. However, Termoelectrica's debts are still a threat to its sustainability.

The Bank has completed two analytical works in the sector. The "Moldova: Electric Power Market Options Sector Study" advises on improving energy security by interconnection with the EU. The "District Heating and Electricity Tariff and Affordability Analysis" aims to inform the policy dialogue on sector reforms and on the delivery of social assistance to ensure sustainable operation of the sector and service delivery.

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at http://www.worldbank.org/moldova

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