

# The World Bank in Moldova Country Snapshot



An overview of the World Bank's work in Moldova

April 2020

MOLDOVA	2019
Population, million	3.5
GDP, current US\$ billion	11.9
GDP per capita, current US\$	3,395
Life Expectancy at birth, years	71.7

## At a Glance

- After solid growth in 2019, the COVID-19 crisis is causing a sudden slowdown in economic activity, straining public finances and challenging existing macro-buffers.
- The economy is facing a recession in 2020 the magnitude of which is subject to significant downside risks.
- Major efforts and political will are needed to mitigate the impact of the epidemic on households and businesses, while key reforms—including strengthening the rule of law and the fight against corruption and boosting competition and human capital—are advanced to support jobs and growth when the crisis subsides.

## Country Context

Moldova is a small lower-middle-income economy. Although it is among the poorest countries 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 4.6 percent annually in the past 20 years, driven by consumption and fueled by remittances. The latter account for 10 percent of GDP.

A closer integration with Europe has anchored successive governments' policy reform agendas, but reforms that are good on paper face implementation challenges. A vulnerable political system, a polarized society, low productivity, demographic challenges, skills mismatches, and a high vulnerability to both climate-related and external shocks are Moldova's biggest economic challenges.

In the near term, the new Government, supported by a parliamentary majority established in March 2020, has the task of taking the country through the COVID-19 crisis without reversing hard-won structural reforms while regaining trust among citizens and international partners, combating corruption, and completing the unfinished reform agenda.

Continued economic stabilization, improved living standards, and the creation of a rule-based environment for businesses are the country's key goals. Moldova's large-scale out-migration, combined with decreasing fertility rates, has led to an alarming decline in the population and increased the share of elderly people. This puts pressure on the pension system and limits the available labor force and the country's long-term competitiveness.

## The World Bank and Moldova

The current Country Partnership Framework (CPF) supports Moldova's transition to a new, more sustainable, and inclusive development and growth model through a mix of analytics, advice, and financing. Grounded in the National Development Strategy, the CPF incorporates the three top-most priorities of the Systematic Country Diagnostic:

- Strengthening the rule of law and accountability in economic institutions,
- Improving inclusive access to and the efficiency and quality of public services,
- Enhancing the quality and relevance of education and training for job-relevant skills.

These priorities define and inform the CPF's focus areas of economic governance, service governance, and skills development. The mid-term strategy assessment validates these focus areas, with adjustments to the evolving country context and to the country's priorities, including:

- 1) building momentum for sound economic governance,
- 2) maintaining solid progress under service governance,
- 3) shifting the focus toward higher education under the ever-important skills agenda, and
- 4) mainstreaming climate change across the Bank-supported program.

### Key Engagement

The World Bank and the International Finance Corporation work together to help Moldova achieve its development goals through improving governance, institutions, and the quality of public services; enhancing the business environment, private sector development, and firm productivity and quality; and deepening investments in human capital, job creation, and infrastructure, including

### WORLD BANK PORTFOLIO

No. of Projects: 11  
Lending: \$470.7 Million  
IBRD: \$88.1 Million  
IDA: \$382.6 Million

in the energy, information and communications technology (ICT), and transport sectors.

To help Moldova cope with the COVID-19 crisis, the World Bank is preparing an emergency response to provide immediate support in tackling the virus outbreak. The project seeks to stem community transmission by

(i) promoting containment strategies that focus on infection prevention and control and

(ii) bolstering intensive care units to accommodate the surge in patients with severe symptoms and the onset of acute respiratory infections.

It will build national capacity in intensive care case management, including through infrastructure improvements and training.

Bank support will also allow the authorities to cushion the impact of the pandemic on the most vulnerable by strengthening social assistance and employment policies and programs.

The Bank is considering ways to repurpose and reorient its portfolio and pipeline to further support economic recovery in the aftermath of the crisis. This includes targeted support to sectors that are critical to Moldova's development, such as education.

The Bank will continue to support the sector through its ongoing Education Reform Project and the recently approved US\$39.4 million Higher Education Project, aiming to improve the quality, relevance, and efficiency of the higher education system, which is central to the country's efforts to boost economic growth and development.

## Recent Economic Developments

Economic growth in 2019 ended at 3.6 percent, driven by investment and private consumption that was supported by remittances, higher wages, and social benefits during the election cycle. On the supply side, construction, trade, and ICT made the highest contributions.

Despite positive signs for employment and disposable income growth for the bottom two quintiles, the unemployment rate slightly increased. Due to a lower base, expansionary fiscal stance, and depreciation, consumer inflation has been on the rise, averaging 4.8 percent.

However, in anticipation of upcoming disinflationary pressures, the central bank cut the policy rate to a historical low and reduced the reserve requirement ratio to encourage financial intermediation. Overall credit to the private sector increased by 11.5 percent year-on-year (y-o-y) in 2019, mostly to households.

The general government deficit stood at 1.5 percent of GDP in 2019. The growth in revenue collection slowed compared to 2018 at 9.7 percent, and expenditures increased by 11.3 percent y-o-y, led by social and capital spending.

Yet, budgeted capital spending remained under-executed. Unlocking foreign financing helped to close the financing gap. The current account deficit widened in the first three quarters of 2019, reaching 10.7 percent of GDP, financed primarily by currency and deposits. External debt declined to 61.2 percent of GDP.

## Economic Outlook

The economy is facing a recession in 2020 due to the COVID-10 pandemic. After the declaration of a state of emergency in mid-March, several measures have been taken to contain the crisis's impact. The current account deficit is projected to remain high as exports decline faster than imports, and inflationary pressures are expected to strengthen.

The lockdown may constrain competition and lead to potential commodity shortages. Monetary policy is expected to remain expansive and support the banking sector to avoid a credit crunch. The 2020 budget envisages a deficit of 3 percent of GDP, financed mostly through external loans that may not materialize.

Mitigating the impact of the crisis will require prioritizing health-related interventions, as well as supporting the unemployed and businesses. Poverty is projected to increase as households grapple with the adverse effects of the coronavirus.

The economic outlook is subject to considerable downside risks, exacerbated by the pandemic. Reduced trade and business activity within the country and at the regional and global levels is already having a negative impact on Moldova's economy, which has been exacerbated by a further reduction in remittances.

The 2020 presidential elections represent a source of yet another round of political uncertainty. Moldova remains highly vulnerable to extreme weather events and external environment shocks, while low productivity, unfavorable demographics, and serious governance challenges would need to be addressed to jump-start growth once the crisis subsides.

## Project Spotlight

### Moldova Education Reform Project



By the end of 2020, 160 schools will benefit from receiving labs for biology, chemistry, and physics classes.

To date, school closures driven by the COVID-19 pandemic have impacted over 1 billion students in 150 countries.

In Moldova, facilities are closed but schools are operating remotely to provide home-based learning online, offline, and on television.

#### **The Moldova Education Reform Project**

is supporting

the country's education system to cope with the current crisis, prepare for its prospective recovery, and develop resilience to future challenges.

Under the project, nine schools have been rehabilitated and received the necessary IT equipment to enable students to continue learning remotely despite the current quarantine regime. By the end of 2020, a total of 160 schools will benefit from receiving similar equipment, as well as labs for biology, chemistry, and physics classes.

The World Bank also aims to ensure learning for all; thus 100 schools will receive equipment for resource centers that work with students with disabilities and other special needs.

The quality of education depends to a great extent on the quality of the human resources. To equip staff with the necessary skills, as many as 2,700 teachers and 1,000 school managers have received training in three areas of expertise.

A further 700 managers, 2,500 teachers, and 450 school psychologists will receive the relevant training to upgrade their skills.



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#### More about the World Bank in Moldova

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<http://www.worldbank.org/en/country/moldova>

Data:

<http://data.worldbank.org/country/moldova>



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