Sound Financial Sector and Export Competitiveness Key to Minimize External Shocks and Reduce Poverty in Moldova

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Moldovas economy registered a 3.9 percent GDP growth in the first half of 2014, driven by higher exports and fixed investments. Despite an unfavorable regional environment due to the Russia-Ukraine crisis, Moldovas external position has remained strong, but downward risks to the macroeconomic framework persist and will negatively affect growth for the rest of 2014, says new World Bank Moldova Economic Update.
"Because of regional challenges and less favorable external demand and financing environment, we expect growth to slow down to 2 percent in 2014, down from 8.9 percent in 2013, and accelerate to 3-5 percent during 2015-2017", said Ruslan Piontkivsky, World Bank Senior Economist for Moldova.
The report highlights that Moldovas external position has remained strong and monetary policies have been consistent with the inflation target of 5+/-1.5 percent. By end-August, consumer prices increased 5.1 percent year-on-year. On the one hand, low growth in domestic consumption, a good agricultural harvest and Russian restrictions on agro-food imports from Moldova (introduced in July-August), contributed to disinflationary pressures. On the other hand, continued soft stance of monetary conditions and depreciation of national currency to US dollar and Euro counterbalanced downward pressures on prices. Foreign exchange reserves declined by 4.4 percent in January-September but remain above 5 months of imports.
However, Moldova remains vulnerable to downside risks stemming from the external environment, fiscal pressures and weaknesses in the financial sector. GDP growth forecast in 2015-2016 is revised downward to 3 and 3.5 percent respectively, compared to April 2014 figures, due to expected weaker economic activity in Russia and Ukraine. Moldova should continue to implement prudent macroeconomic policies with low fiscal deficits and a flexible exchange rate subordinated to inflation to shelter from external vulnerabilities.
"Soundness and transparency of the financial sector remain the main domestic policy challenges. Failure to address the credit quality, liquidity and capital adequacy concerns at select banks would keep the financial risks elevated", said Alex Kremer, World Bank Country Manager for Moldova. "Moreover, strong structural reforms across all sectors of the economy are essential for improving the countrys trade competitiveness. Free trade with the EU provides new opportunities to benefit from openness and deeper integration into the global economy."
Since Moldova joined the World Bank in 1992, over US$1 billion has been allocated to 49 projects in the country. Currently, the World Bank portfolio includes 8 active projects with total commitment of US$235.2 million. Areas of support include regulatory reform and business development, education, social assistance, e-governance, healthcare, agriculture, environment, and others. The International Finance Corporation has invested US$233 million in 24 projects in various sectors, and the Multilateral Investment Guarantee Agency has provided guarantees totaling US$95 million. Both institutions are members of the World Bank Group.

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