



Moldova's Economy and Reforms: IMF Perspective

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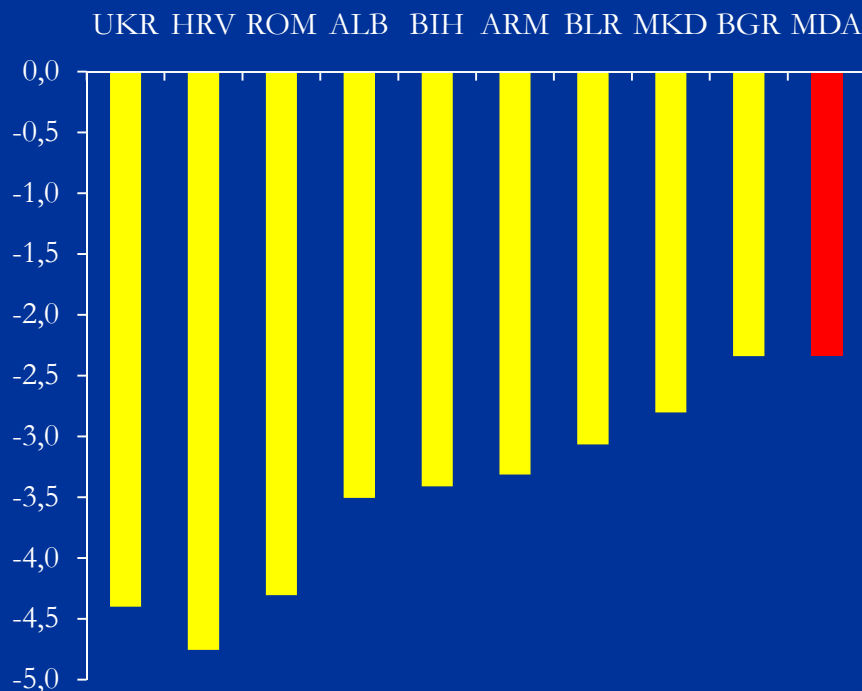
June 2013

Outline

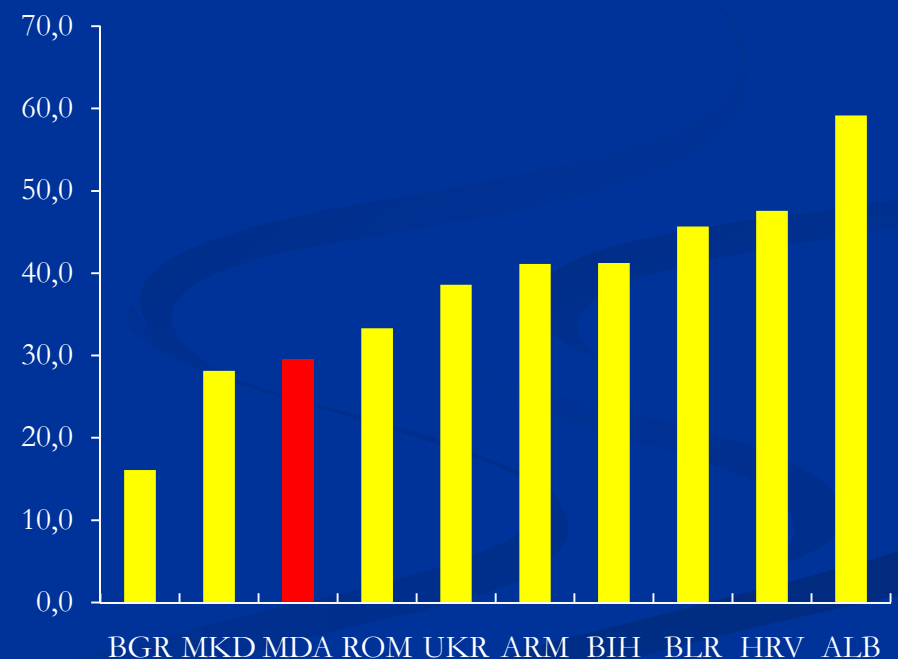
- Recent economic developments
- Outlook for 2013
- Policy priorities in the short and medium term

Among peers, Moldova compares well on fiscal indicators, having significantly improved its public finances in the course of IMF-supported program in 2010-2012...

Fiscal balance
(% of GDP, average 2010-12)

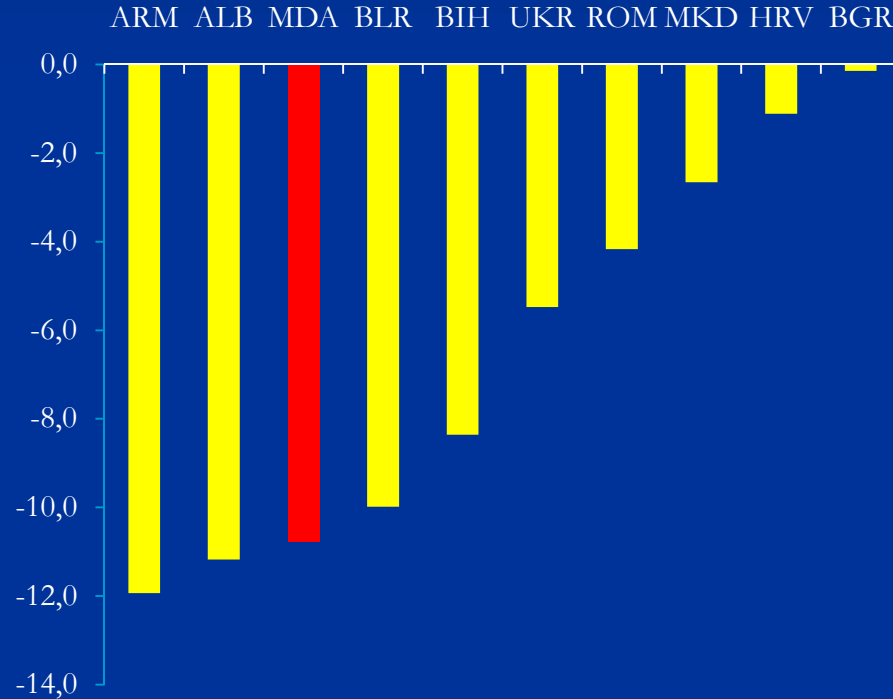


Public debt
(% of GDP, average 2010-12)

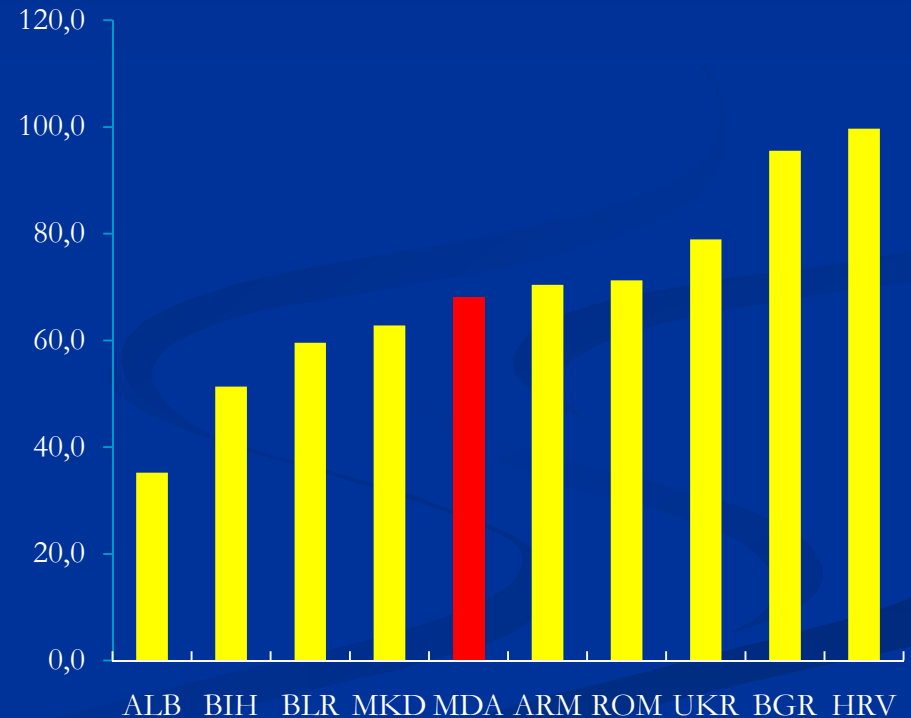


...but external vulnerabilities remain relatively high

Current account balance
(% of GDP, average 2010-12)



External debt
(% of GDP, average 2010-12)



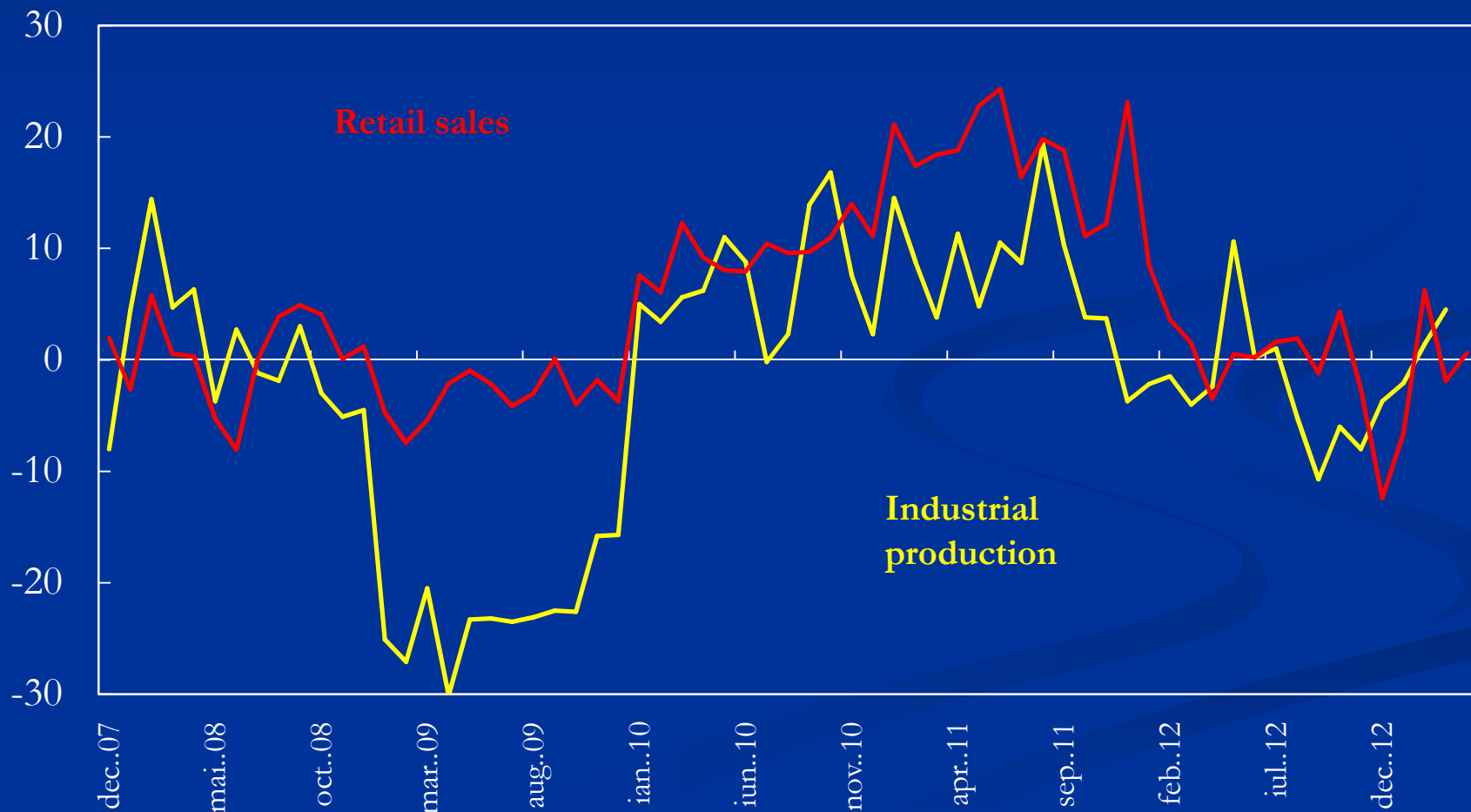
2012 was a difficult year

- Major drought pulled agriculture down by over 20 percent
- Weak external environment slowed remittances and domestic demand
- Real GDP declined by 0.8%
- So far in 2013...

Real economy shows signs of recovery...

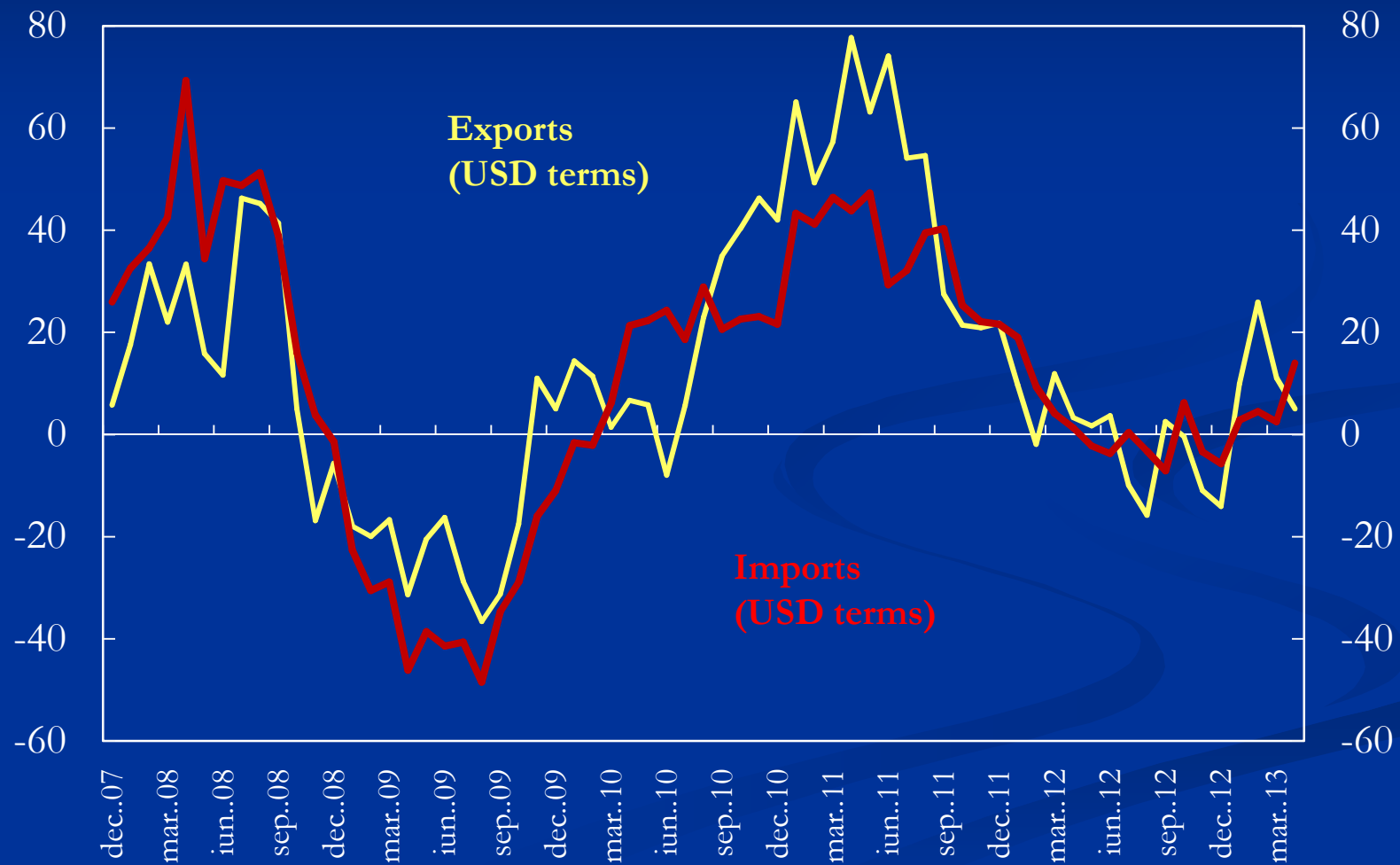
Real sector activity—both production and demand—began to recover in the first quarter of 2013

(twelve-month growth rates, percent)



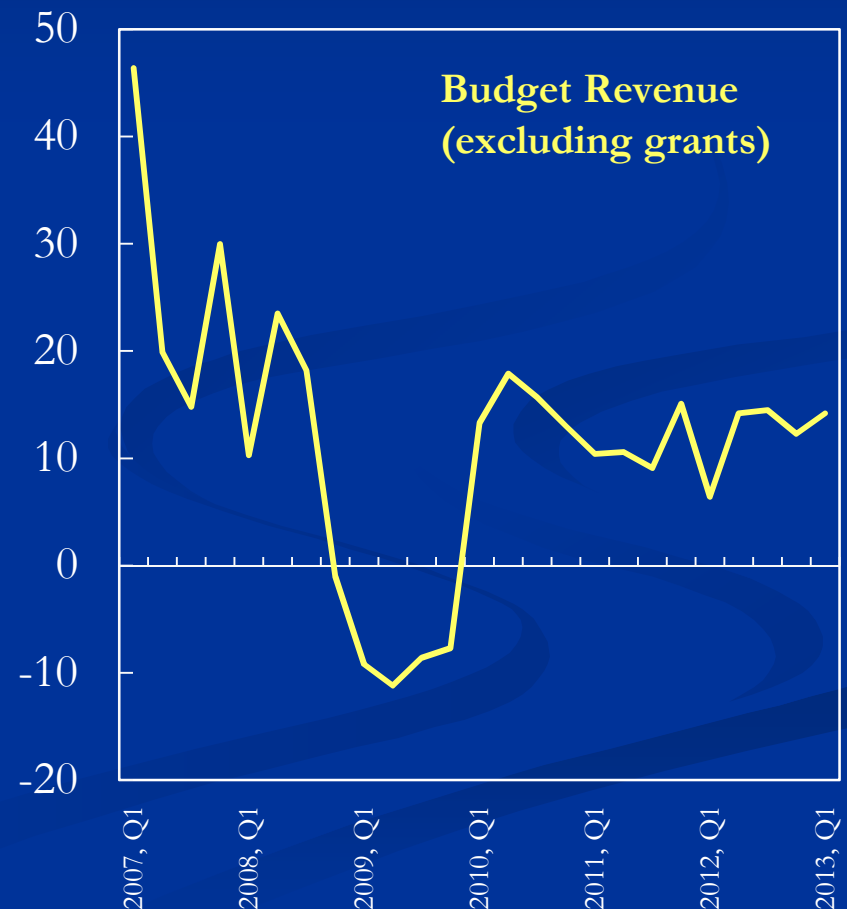
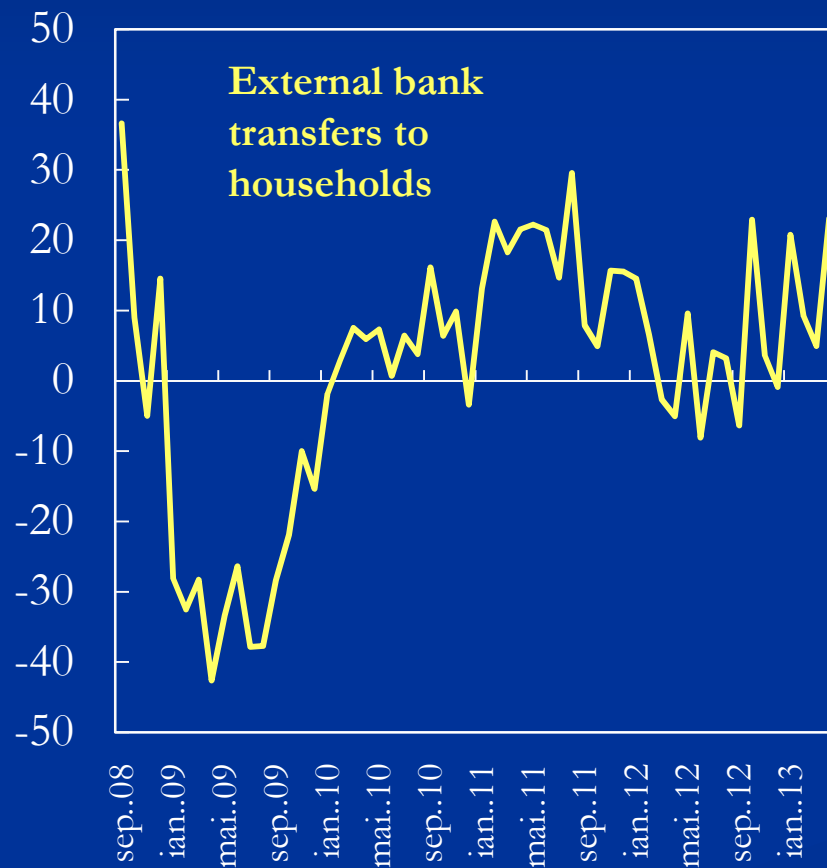
and external trade is also reviving

After last year's slump, exports grew 15% and imports 3% in Q1 2013
(twelve-month growth rates, percent)

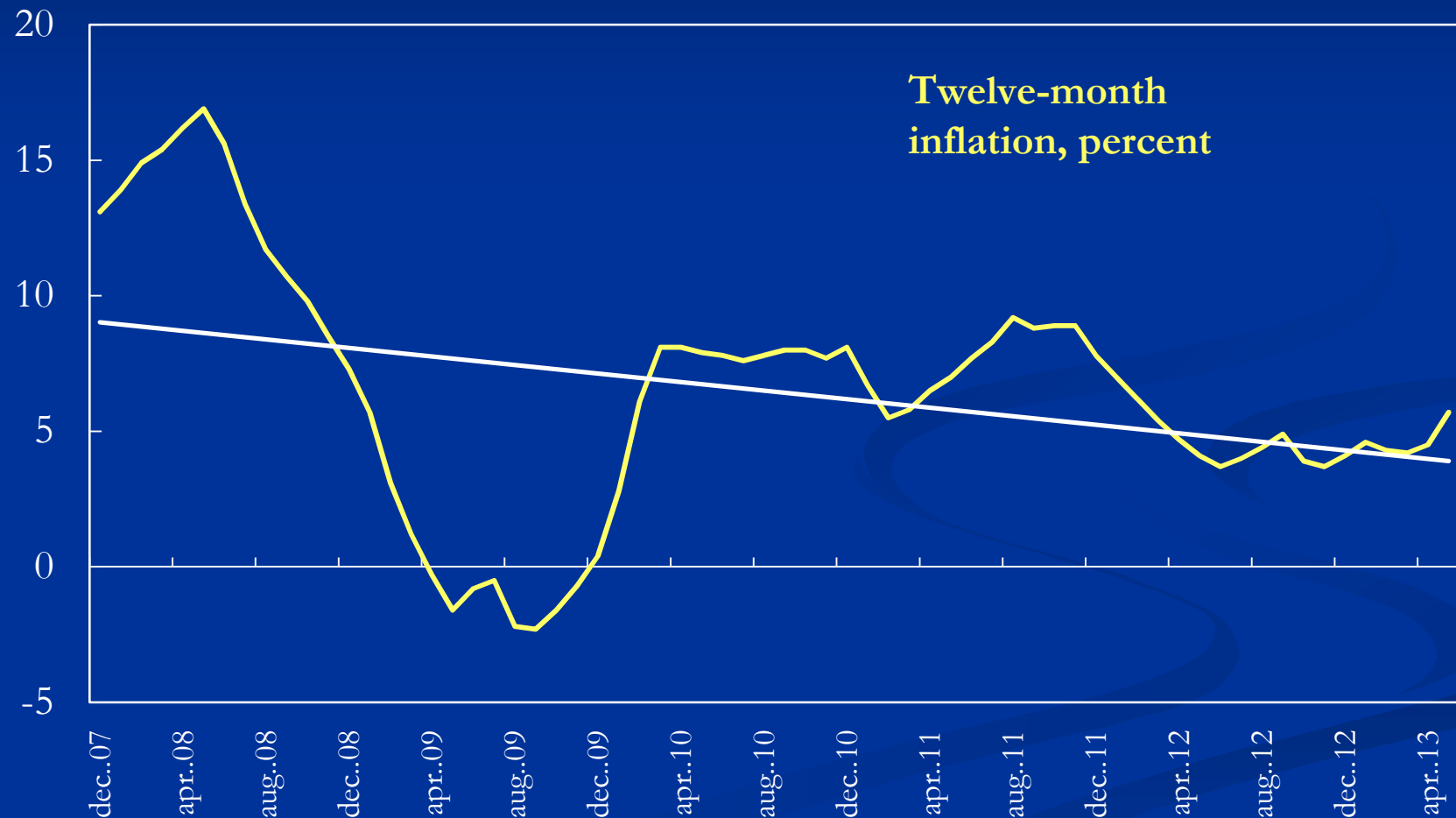


Remittances resumed growth and budget revenue remain strong.

(year-on-year growth rates, percent)

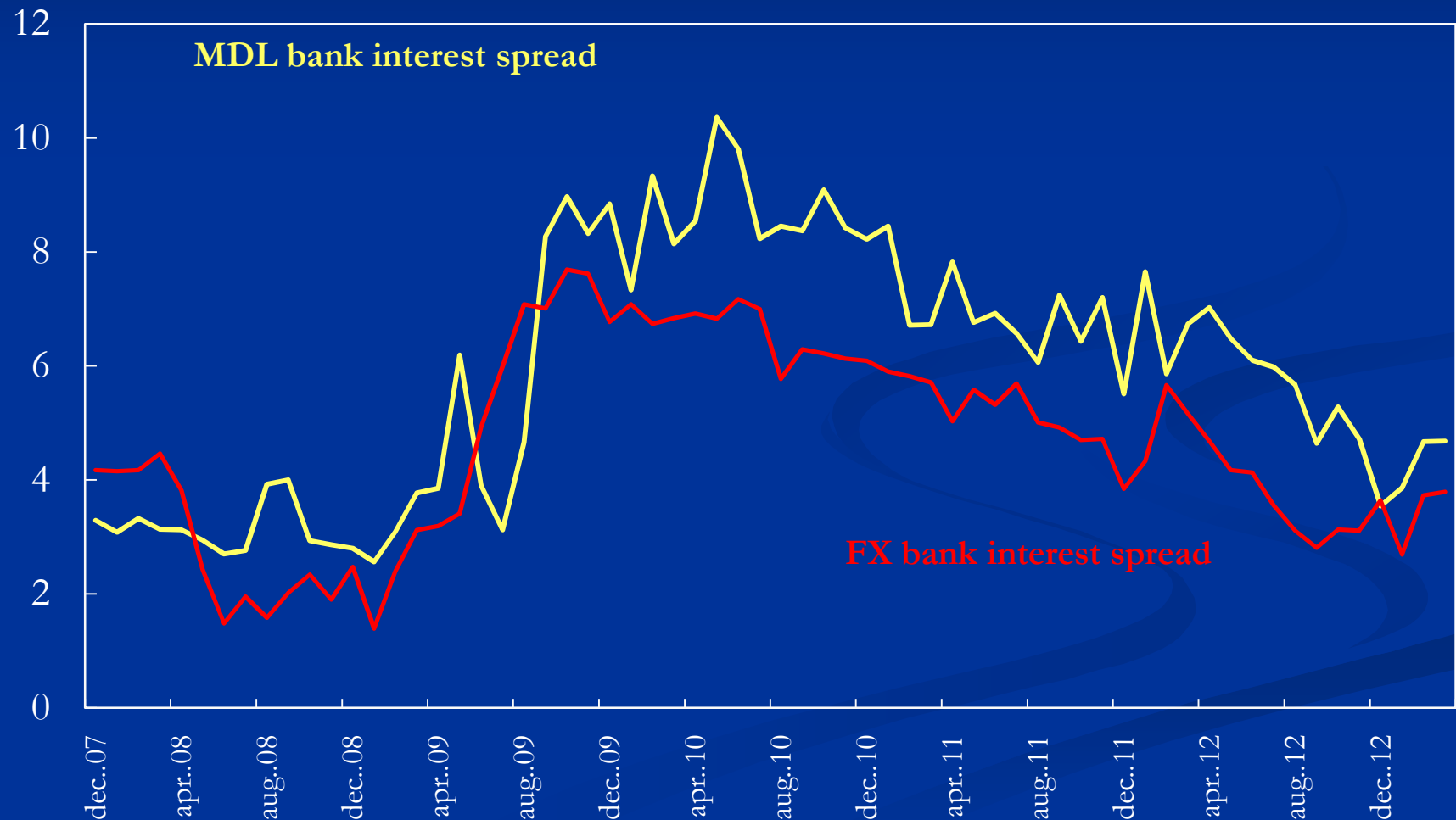


Inflation remained under control, although food prices have begun to push it higher

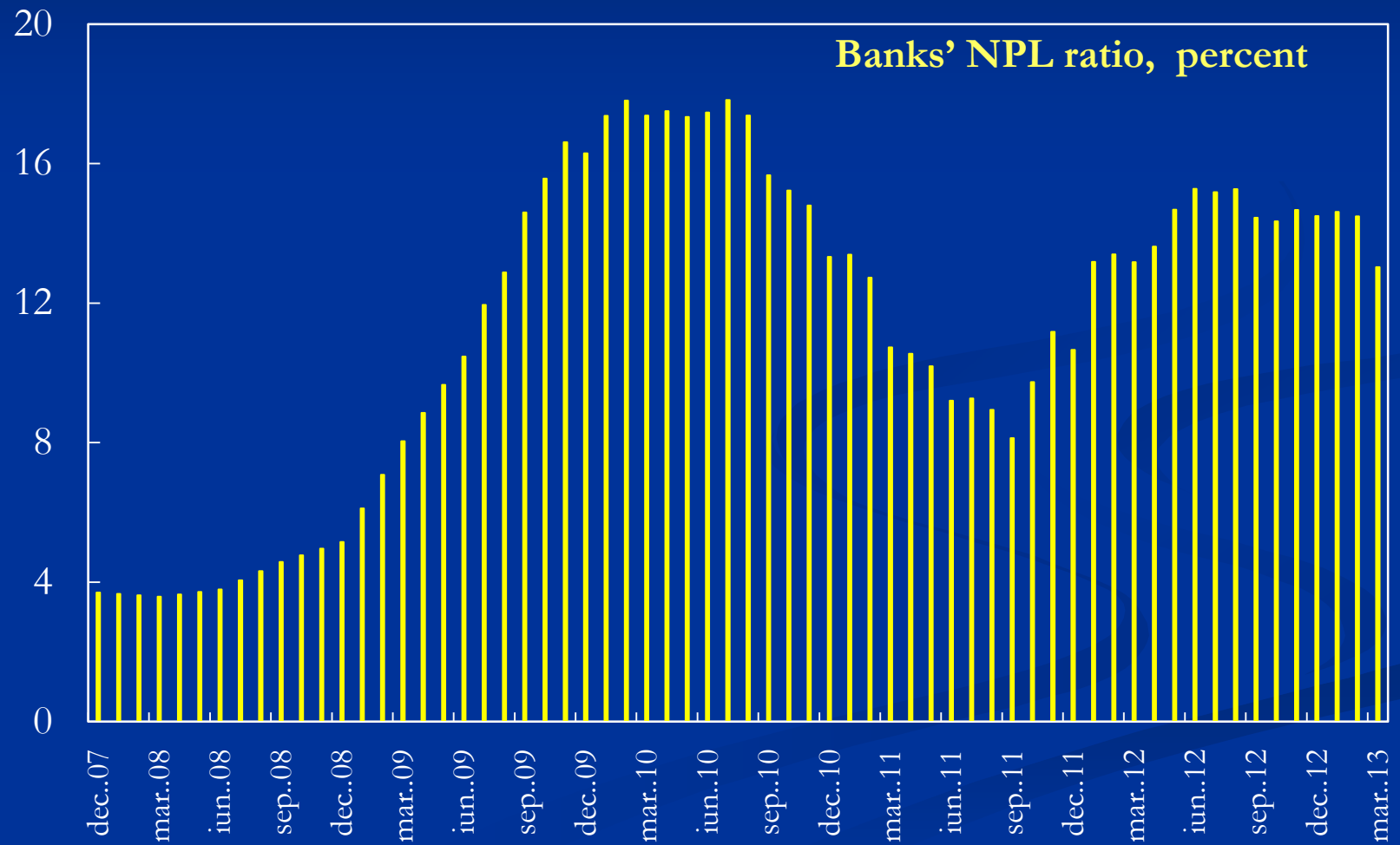


Bank credit conditions continue to improve...

Spreads between lending and deposit rates have declined almost to pre-crisis levels and interest rates are near historic lows.



...although non-performing loans (NPL) ratio remains elevated



Outlook for 2013

- *Growth* will likely rebound on account of agriculture
- *Inflation* projected in line with NBM's target range
- *Fiscal* performance will require effort in light of recent slippages
- *Current account* deficit could gradually widen as demand recovers

	2010	2011	2012	2013 proj.
GDP growth	7.1	6.8	-0.8	4.0
Inflation, end year	8.1	7.8	4.0	4.1
Current account balance (% of GDP)	-9.8	-12.4	-7.9	-10.8
Fiscal balance (% of GDP)	-2.5	-2.4	-2.1	...

Main short-term risks and challenges

- External environment remains fragile
- Domestic political situation
- Recent fiscal slippages
 - Fiscal situation needs to be brought under control
 - Recent policies on agriculture taxation and additional expenditure need to be reviewed
- Concerns in the financial sector
 - resolution of bad loans
 - transparency of shareholders
- Maintaining macroeconomic stability—it is not the end in itself, but a must for development

Main task of economic reforms: improve competitiveness of business environment

Key dimensions of competitiveness that determine cost of doing business:

1. Justice system—major weakness
2. Tax and customs administration
 - Need greater focus on voluntary compliance and risk-based inspections
3. Labor force
 - reform of secondary and vocational education
 - labor cost should reflect productivity
4. Infrastructure
 - fiscal consolidation to make space in the budget
 - procurement and related reforms to improve efficiency and absorptive capacity

Thank You!

