
# MOLDOVA: Dependent on aid from both East and West

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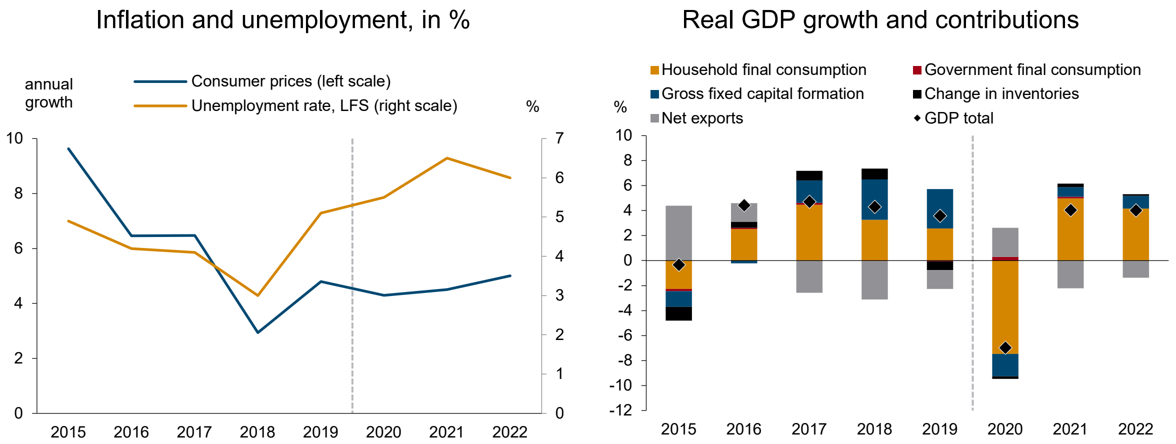
**The poorest country in Europe also has the highest figures for COVID-19 infections and fatalities in relation to population. Fiscal policy has very limited scope to mitigate the impact of the crisis from the country's own revenues. The government needs to rely on foreign agencies for financing (although these impose conditions that are difficult to meet) and has to maintain a balanced relationship with Russia and the EU. Economic decline of at least 7% in 2020 will be followed by a slow recovery in coming years.**

**Figure 4.13 / Moldova: Main macroeconomic indicators**




Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**The poorest country in Europe also has the highest figures for COVID-19 infections and deaths as a proportion of population.** The authorities managed the epidemic fairly well in the second quarter of 2020, by applying a total lockdown; but this in return generated steep economic decline. Measures were less stringent under the 'state of alert' in the third quarter, and the economy recovered somewhat – but at the cost of a renewed rapid spread of the disease. The numbers of new cases and fatalities increased through September and have remained at a high level in October. Moldova does not have the resources necessary to substantially improve the health situation or to seriously mitigate the economic consequences of the pandemic. The country relies mainly on foreign donors (among them China, Russia and the EU) to provide protective equipment for its medical personnel.

**Growth in the economy had slowed to 0.9% (year on year) even in the first quarter of 2020, but it then contracted by 14% in the second; thus GDP fell by 7.2% in the first half of 2020.** Household consumption and investments made a negative contribution, government consumption was modestly positive and net exports were highly positive, as imports fell more than exports. Fuel and energy imports declined in both volume and value terms, while more agricultural products were imported than a year before. The third quarter will have been rather better in terms of household consumption, if the July data are anything to go by. Retail sales were up by 12% compared with the previous year, though services to the population were still 25% down. In a not unrelated development, imports recovered more strongly than exports. The positive contribution of net exports to GDP will be maintained in the second half of the year.

**A bad harvest is hampering the prospects for recovery by reducing export volumes and the value of on-farm consumption.** Severe drought has led to talk of an agricultural crisis. Support in the face of agricultural calamity mainly relies on instruments that are applied to the economy as a whole – namely tax relief, interest support and rapid VAT refunds; whereas what farmers need above all is cash. Agriculture contributes about 10% to GDP, yet it provides a living for about a third of the population.

**Industrial production collapsed during the April shutdown, but has since recovered somewhat.** It was 7.5% lower in the first six months of 2020 than a year previously, and will be even lower for the year as a whole. The worst affected by the downturn are the export-oriented branches of the processing industry, which have been integrated into international value chains by foreign investors. Automotive and electrical machinery components production fell by almost 40% in the first seven months, but the production of chemical products and construction materials increased. Recovery will be cumbersome, as value chains are slow to get connected.

**The labour force participation rate of the population aged 15 and over dropped to 40% in the second quarter of 2020, from 43.4% the previous year.** The generally low participation rate is due to emigration and to methodological changes, as those peasants who produce only for their own consumption – 30% of total agricultural employment – have been dropped from the statistics. The impact of the lockdown has so far not shown up in the unemployment statistics: the Labour Force Survey (LFS) unemployment rate (4.2%) was, in fact, lower in the first half of 2020 than the year before. The effects appear in the number of temporarily idle persons. According to the second quarter LFS, 7% of respondents said they had lost their jobs due to the pandemic, while 24% had been laid off or were on reduced worktime. The latter were disregarded in the calculation of average real wages, which therefore surpassed the second quarter of 2019 by almost 3%, while household consumption nosedived by 17%. Increasing unemployment will be the longer-term result of the pandemic, once more businesses go bankrupt.

**Monetary policy switched to supplying liquidity to the economy.** The national bank reduced its policy rate from 5.5% to 2.75% from the start of 2020 until the end of September, but left the corridor of the overnight lending facility at 3 percentage points. This move is justified by the declining rate of inflation, which fell from 7% to 3.5% in the same period. We expect another minor rate cut (to 2.5%) in the fourth quarter, when inflation is set to fall even further. But food prices are bound to rise in the near future, and medium-term inflation is forecast to climb to the national bank target of 5%.

**The current account deficit to GDP figure is projected to come down to 6.5%, due to a smaller trade deficit; this will reduce the pressure on external financing in 2020.** Remittances were 16% down in the second quarter, but only due to restrictions on commuters working abroad; the personal transfers of long-term migrants were at the same level as the previous year. Despite employment uncertainty all over Europe, the level of transfers may be even higher than in the previous year, as these are governed more by need in the home country than by the income of migrants abroad.

**Fiscal policy has very limited scope to mitigate the impact of the crisis; but with aid and credits flowing in, the estimated fiscal stimulus could reach about 3% of GDP.** Tax and credit reliefs have been the major provisions, while little action has appeared on the expenditure side. Foreign financing is mainly in the form of credits and donations from multilateral agencies (IMF, EU, etc.) and bilateral credit lines (Russia, Romania). But disbursement is slow: in spring, the EU pledged EUR 100 million in macroeconomic support to help mitigate the economic fallout of the coronavirus epidemic, and yet the first tranche of EUR 50 million arrived only in September. The European Commission also recently approved the disbursement of EUR 30 million in macro-financial assistance, pledged last year to help the country cover its external financing needs, after the IMF staff and the Moldovan authorities reached agreement in July on an economic reform programme to be supported by USD 558 million over three years. Both EU and IMF assistance is linked to conditionalities, mainly to do with implementing institutional reform aimed at improving public governance and the rule of law. Although some parties that are in opposition to the present government and president support such a move, it is a cumbersome process, as it affects the vested interests of political and economic stakeholders.

**Russia promised USD 200 million in new loans to show its support for the Russia-friendly government and president.** This provoked political controversy in Moldova between government supporters and those who oppose the country's dependence on Russia. The credit is now cleared to arrive by 1 November to support the re-election of the socialist and pro-Russian incumbent, President Igor Dodon. The opposition is split between several candidates, but the pro-Western Maia Sandu is most likely to qualify for the second round, to be held on 15 November. Ever since Moldova's independence, the choice between the two directions of integration has remained unresolved. There has been a shift from Russia to the EU in terms of foreign trade and migration, but Russia strongly influences the media. The Russian military presence in Transnistria sets another limit to Moldova's Western orientation. Whoever wins the presidential election (and a possible later snap parliamentary election) will have to find a balance between East and West. It would be advantageous for economic progress if all foreign stakeholders were to maintain their financial support.

**Economic decline of about 7% in 2020 will be followed by a slow recovery in coming years.** The decline in 2020 could be more severe if there are large losses in agricultural output or a renewed lockdown. Recovery will be slow, as foreign demand will only gradually return to normal. Domestic demand will be plagued by bankruptcies and growing unemployment when tax reliefs expire in 2021. Private investment will start growing, once the government embarks on budgetary consolidation. But the credit line of EUR 300 million – recently agreed by the European Bank for Reconstruction and Development and the European Investment Bank for major road repairs – could generate additional investment. It is essential that foreign donors maintain an interest in financing economic recovery and structural reform.

## Table 4.13 / Moldova: Selected economic indicators

| | 2017 | 2018 | 2019 [1] | 2020 1Q | 2020 2Q | 2020 1-2Q | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Forecast | |
| Population, th pers., average [2] | 2,755 | 2,706 | 2,663 | . | . | . | 2,600 | 2,560 | 2,500 |
| Gross domestic product, MDL bn, nom. | 178.9 | 192.5 | 210.4 | 43.7 | 44.6 | 88.3 | 204 | 222 | 241 |
| annual change in % (real) | 4.7 | 4.3 | 3.6 | 0.9 | -14.0 | -7.2 | -7.0 | 4.0 | 4.0 |
| GDP/capita (EUR at PPP) | 7,990 | 8,640 | 9,080 | . | . | . | . | . | . |
| Consumption of households, MDL bn, nom. | 150.8 | 160.5 | 174.6 | 37.1 | 34.1 | 71.1 | . | . | . |
| annual change in % (real) | 5.3 | 3.9 | 3.1 | -1.8 | -17.0 | -9.6 | -9.0 | 6.0 | 5.0 |
| Gross fixed capital form., MDL bn, nom. | 39.9 | 46.8 | 54.0 | 9.3 | 12.8 | 22.0 | . | . | . |
| annual change in % (real) | 8.0 | 14.5 | 12.9 | 9.3 | -15.6 | -6.4 | -7.0 | 3.0 | 4.0 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 3.4 | 3.7 | 2.0 | 0.0 | -14.9 | -7.4 | -9.0 | 5.0 | 7.0 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 9.1 | 2.9 | -1.9 | . | . | . | . | . | . |
| Construction industry | | | | | | | | | |
| annual change in % (real) | 3.6 | 10.3 | 11.2 | . | . | . | . | . | . |
| Employed persons, LFS, th, average [3] | 1,208 | 1,252 | 872 | 806 | 822 | 814 | 820 | 800 | 800 |
| annual change in % [3] | -1.0 | 3.7 | . | -2.7 | -8.8 | -5.9 | -6.0 | -2.0 | 0.0 |
| Unemployed persons, LFS, th, average [3] | 51.6 | 38.4 | 46.9 | 34.2 | 36.2 | 35.2 | 50.0 | 60.0 | 50.0 |
| Unemployment rate, LFS, in %, average | 4.1 | 3.0 | 5.1 | 4.1 | 4.2 | 4.2 | 5.5 | 6.5 | 6.0 |
| Reg. unemployment rate, in %, eop | 2.1 | 1.7 | 1.8 | 2.0 | 3.8 | 3.8 | . | . | . |
| Average monthly gross wages, MDL | 5,587 | 6,268 | 7,234 | 7,634 | 7,849 | 7,741 | 7,700 | 8,400 | 9,200 |
| annual change in % (real, gross) | 5.0 | 9.0 | 10.1 | 3.6 | 2.7 | 3.1 | 2.0 | 4.0 | 4.0 |
| Average monthly net wages, MDL | 4,564 | 5,142 | 6,010 | . | . | . | 6,400 | 7,000 | 7,600 |
| annual change in % (real, net) | 4.5 | 9.4 | 11.5 | . | . | . | 2.0 | 4.0 | 4.0 |
| Consumer prices, % p.a. | 6.5 | 2.9 | 4.8 | 6.5 | 4.6 | 5.5 | 4.3 | 4.5 | 5.0 |
| Producer prices in industry, % p.a. | 3.3 | 0.4 | 1.8 | 2.7 | 2.7 | 2.7 | 2.0 | 3.0 | 3.0 |
| General governm. budget, nat.def., % of GDP | | | | | | | | | |
| Revenues | 29.8 | 30.1 | 29.9 | 34.4 | 31.4 | 32.9 | 32.0 | 32.0 | 32.0 |
| Expenditures | 30.5 | 31.0 | 31.4 | 35.3 | 38.3 | 36.8 | 38.0 | 36.0 | 33.0 |
| Deficit (-) / surplus (+) | -0.6 | -0.8 | -1.4 | -0.9 | -6.9 | -3.9 | -6.0 | -4.0 | -1.0 |
| General gov.gross debt, nat.def., % of GDP | 29.1 | 27.2 | 25.1 | 26.7 | 29.5 | 29.5 | 31.9 | 33.3 | 31.7 |
| Stock of loans of non-fin.private sector, % p.a. | -3.3 | 6.0 | 13.9 | 15.8 | 8.1 | 8.1 | . | . | . |
| Non-performing loans (NPL), in %, eop [4] | 18.4 | 12.5 | 8.5 | 8.5 | 8.7 | 8.7 | . | . | . |
| Central bank policy rate, %, p.a., eop [5] | 6.50 | 6.50 | 5.50 | 3.25 | 3.25 | 3.25 | 2.50 | 2.50 | 3.00 |
| Current account, EUR mn [6] | -492 | -1004 | -1000 | -181.8 | -17 | -199.5 | -660 | -720 | -860 |
| Current account, % of GDP | -5.7 | -10.4 | -9.3 | -8.1 | -0.8 | -4.4 | -6.5 | -6.8 | -7.5 |
| Exports of goods, BOP, EUR mn [6] | 1,657 | 1,672 | 1,892 | 488 | 363 | 851 | 1,780 | 1,850 | 2,050 |
| annual change in % | 17.7 | 1.0 | 13.1 | 2.4 | -8.4 | -2.6 | -5.9 | 3.9 | 10.8 |
| Imports of goods, BOP, EUR mn [6] | 3,928 | 4,462 | 4,850 | 1138 | 868 | 2006 | 4,370 | 4,540 | 4,990 |
| annual change in % | 19.6 | 13.6 | 8.7 | 4.0 | -26.6 | -11.9 | -9.9 | 3.9 | 9.9 |
| Exports of services, BOP, EUR mn [6] | 1,109 | 1,247 | 1,378 | 299 | 235 | 535 | 1,160 | 1,270 | 1,410 |
| annual change in % | 15.1 | 12.5 | 10.4 | -2.3 | -32.8 | -18.5 | -15.8 | 9.5 | 11.0 |
| Imports of services, BOP, EUR mn [6] | 838 | 947 | 1,064 | 227 | 154 | 381 | 900 | 980 | 1,080 |
| annual change in % | 10.5 | 12.9 | 12.5 | 2.2 | -41.7 | -21.6 | -15.5 | 8.9 | 10.2 |
| FDI liabilities, EUR mn [6] | 133 | 244 | 448 | 21 | -21 | 0 | 40 | . | . |
| FDI assets, EUR mn [6] | 9 | 29 | 36 | 6 | 3 | 9 | 0 | . | . |
| Gross reserves of NB excl. gold, EUR mn [6] | 2,346 | 2,628 | 2,731 | 2,660 | 2,826 | 2,826 | . | . | . |
| Gross external debt, EUR mn [6] | 5,725 | 6,430 | 6,626 | 6684 | 6,898 | 6898 | 7,100 | 7,200 | 7,600 |
| Gross external debt, % of GDP | 66.7 | 66.3 | 62.0 | 65.5 | 67.6 | 67.6 | 70.0 | 68.0 | 66.0 |
| Average exchange rate MDL/EUR | 20.83 | 19.84 | 19.67 | 19.4 | 19.5 | 19.5 | 20.0 | 21.0 | 21.0 |

Note: All series excluding data on districts from the left side of the river Nistru and municipality Bender.
1) Preliminary. - 2) According to census May 2014, usual residence. - 3) From 2019 according to census May 2014 and further adjustments to international standards. Data not comparable with previous years. - 4) Substandard, doubtful and loss credit portfolio. -
5) Overnight (refinancing) operations rate. - 6) Converted from USD.

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.