

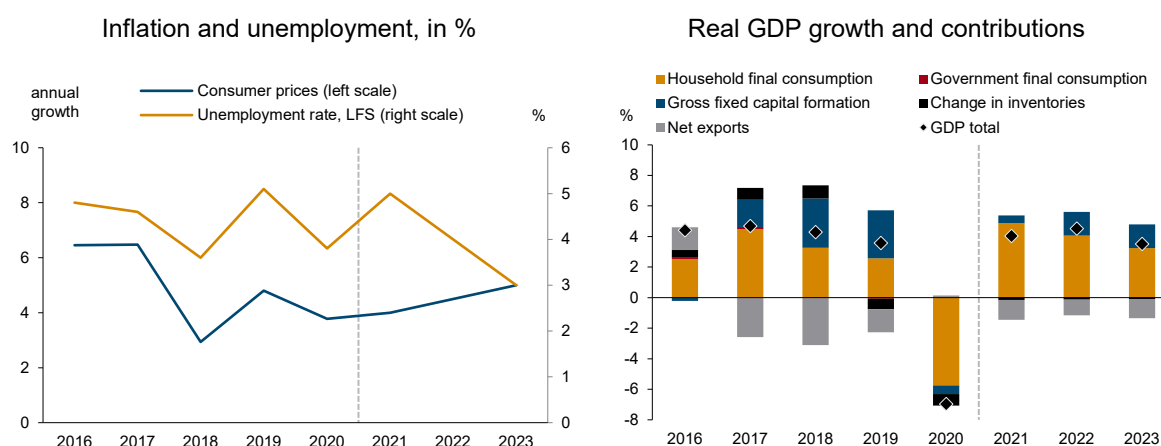


MOLDOVA: Cumbersome recovery from deep recession

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The 7% drop in GDP in 2020 was mainly the result of contracting household demand and an extremely bad harvest. Official employment and unemployment both declined, as people were forced into irregular work. Economic growth will resume in 2021 (+4%), but slow progress in vaccination will delay a full recovery to the pre-crisis level. Surprisingly low inflation will not be sustainable once the economy starts growing.

Figure 4.13 / Moldova: Main macroeconomic indicators



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

GDP declined by 7% in 2020 on account of a sharp drop in domestic and foreign demand.

Household consumption contracted at the same rate as the overall economy. This came despite the rather mild COVID-19-related restrictions during the second wave of infections. All other demand components also posted negative growth. Although investments in infrastructure generated a boom in the construction sector, investments in the private sector as a whole were held back by uncertainty, and so gross fixed capital formation made a negative contribution to growth. Unfavourable weather conditions led to a significant decline in agricultural production, contributing 2.7 percentage points to the decline in value added. Retail trade contributed 2.1 percentage points to the decline. Manufacturing production fell in two key segments, food and drinks, in response to the shortfall in domestic input; and the export-oriented production of machinery and car parts. The latter was a major blow to structural modernisation, foreign direct investment inflows and the foreign trade balance.

The general government budget deficit widened to 8% of GDP, mainly on account of revenue shortfalls. The major part of the public deficit was financed by international donors (IMF, World Bank etc.) extending the necessary loans for budget support. The country has no access to international bond

markets, and sovereign ratings are not expected to reach investment grade in the near future. A smaller part of the financing came from domestic bond issues, given households' higher savings rates during the pandemic. Nominal yields came down to record-low levels, as did interest rates on borrowing for investment. They responded to falling inflation, but remained positive in real terms.

Inflation slowed between January 2020 and January 2021, on account of declining energy prices and sluggish domestic demand for goods and services. Food products were the exception; prices soared, owing to contracting domestic supplies of basic staples. Inflation will begin to accelerate during 2021, but the average rate will be about 4%, not much above the 2020 level and below the target set by the National Bank of Moldova (the central bank). Employment contracted in 2020 at a remarkable rate; the participation rate fell to only 51% of the working-age population. People affected by the pandemic either left the labour market altogether or were put on involuntary leave. The latter phenomenon was especially widespread in the second quarter of the year, but it returned to the level of the previous year in the second half of 2020 when restrictions were relaxed. As a result, the unemployment rate fell below 4% last year, despite the crisis – a lower level than in 2019 (which saw a very large employment downturn in the first quarter).

The current-account deficit contracted to about 7% of GDP, after having soared for two years. Imports subsided on account of falling oil prices and sluggish domestic demand. Exports fell even more sharply, but they amounted only to half of the value of imports. The surplus on the primary income account contracted, but the secondary income surplus widened. Detailed data on these two balance-of-payments positions suggest that short-term migrants reduced their mobility and remittances, while long-term migrants increased their remittances. The volume of money transfers to Moldova for households through banks amounted to USD 1.5bn (12.5% of GDP) in 2020, up by almost 22% from the 2019 level. This may not mean a similar increase in total remittances as restrictions on movement meant that less cash came into the country. Imports will bounce back in 2021 in the new environment of higher international energy prices, and the current-account deficit may return to 9% of GDP.

The current political stalemate is not supportive of crisis management. Since December 2020 the country has had a pro-Western president, Maia Sandu, who is determined to put an end to corrupt practices and the reign of the oligarchy. But her supporters lack a majority in parliament and Constitutional Court rulings tend not to go in their favour. They have thus been unable to bring about early elections, which could change the balance of power to their benefit. The pro-Russian prime minister resigned in December 2020, giving way to an interim government whose term has now expired. The president and parliament have been seeking to appoint a new prime minister, but so far they have blocked each other's candidates. However, there may be some chance of a compromise as the spread of the pandemic accelerates.

Shortage of vaccines delays both political and economic improvements. Moldova failed to start vaccination until early March 2021. Vaccines were donated by Romania and some doses were purchased through the World Health Organisation's co-sponsored COVAX programme. With the number of infections rising, restrictive measures under a state of emergency were reintroduced on 20 March; these will suppress economic activity for at least a month. International value chains are set to be disrupted once more, and the international movement of labour further restricted. The situation is also serious in Transnistria. The Chisinau government has reportedly included the separatist region in international humanitarian assistance programmes and is providing medical support.

Growth can resume in 2021, given normal weather conditions and positive developments in Moldova's main export market, Romania. The government aims to bring down the fiscal deficit to 6% of GDP. It has prolonged the guarantee schemes and the possibility of deferred tax payments for small and medium-sized enterprises. Nevertheless, access to finance has become increasingly difficult for the private sector; liquidity-constrained small companies are facing the greatest challenges. Bankruptcies and unemployment may worsen before the situation improves. A return to the pre-crisis level of economic activity is feasible only in mid-2022.

Table 4.13 / Moldova: Selected economic indicators

| | 2017 | 2018 | 2019 | 2020 ¹⁾ | 2021 | 2022 | 2023 |
|--|-------|-------|-------|--------------------|----------|-------|--------|
| | | | | | Forecast | | |
| Population, th pers., average | 2,755 | 2,706 | 2,663 | 2,600 | 2,560 | 2,500 | 2,500 |
| Gross domestic product, MDL bn, nom. | 178.9 | 192.5 | 210.4 | 206.4 | 225 | 247 | 268 |
| annual change in % (real) | 4.7 | 4.3 | 3.6 | -7.0 | 4.0 | 4.5 | 3.5 |
| GDP/capita (EUR at PPP) | 7,980 | 8,330 | 8,870 | 8,580 | . | . | . |
| Consumption of households, MDL bn, nom. | 150.8 | 160.5 | 174.6 | 167.6 | . | . | . |
| annual change in % (real) | 5.3 | 3.9 | 3.1 | -7.0 | 6.0 | 5.0 | 4.0 |
| Gross fixed capital form., MDL bn, nom. | 39.9 | 46.8 | 54.0 | 53.0 | . | . | . |
| annual change in % (real) | 8.0 | 14.5 | 12.9 | -2.1 | 2.0 | 6.0 | 6.0 |
| Gross industrial production | | | | | | | |
| annual change in % (real) | 3.4 | 3.7 | 2.0 | -5.5 | 6.0 | 7.0 | 5.0 |
| Gross agricultural production | | | | | | | |
| annual change in % (real) | 9.1 | 2.9 | -1.9 | -27.1 | . | . | . |
| Construction industry | | | | | | | |
| annual change in % (real) | 3.6 | 17.6 | 12.8 | 3.7 | . | . | . |
| Employed persons, LFS, th, average | 800 | 794 | 872 | 834 | 830 | 840 | 850 |
| annual change in % | -3.8 | -0.8 | 9.9 | -4.4 | 0.0 | 1.0 | 1.0 |
| Unemployed persons, LFS, th, average | 38.9 | 29.6 | 46.9 | 33.1 | 40.0 | 40.0 | 30.0 |
| Unemployment rate, LFS, in %, average | 4.6 | 3.6 | 5.1 | 3.8 | 5.0 | 4.0 | 3.0 |
| Reg. unemployment rate, in %, eop | 2.1 | 1.7 | 1.8 | 2.9 | . | . | . |
| Average monthly gross wages, MDL | 5,587 | 6,268 | 7,234 | 8,104 | 8,800 | 9,700 | 10,700 |
| annual change in % (real, gross) | 5.0 | 9.0 | 10.1 | 6.2 | 4.0 | 5.0 | 5.0 |
| Average monthly net wages, MDL | 4,564 | 5,142 | 6,010 | 6,600 | 7,100 | 7,800 | 8,600 |
| annual change in % (real, net) | 4.5 | 9.4 | 11.5 | 6.2 | 4.0 | 5.0 | 5.0 |
| Consumer prices, % p.a. | 6.5 | 2.9 | 4.8 | 3.8 | 4.0 | 4.5 | 5.0 |
| Producer prices in industry, % p.a. | 3.3 | 0.3 | 1.8 | 2.6 | 5.0 | 4.0 | 3.0 |
| General governm.budget, nat.def., % of GDP | | | | | | | |
| Revenues | 29.8 | 30.1 | 29.9 | 30.4 | 30.0 | 31.0 | 31.0 |
| Expenditures | 30.5 | 31.0 | 31.4 | 35.5 | 36.0 | 33.0 | 32.0 |
| Deficit (-) / surplus (+) | -0.6 | -0.8 | -1.4 | -5.1 | -6.0 | -3.0 | -1.0 |
| General gov.gross debt, nat.def., % of GDP | 29.1 | 27.2 | 25.1 | 30.7 | 34.0 | 34.0 | 32.3 |
| Stock of loans of non-fin.private sector, % p.a. | -3.3 | 6.0 | 13.9 | 13.2 | . | . | . |
| Non-performing loans (NPL), in %, eop ²⁾ | 18.4 | 12.5 | 8.5 | 7.4 | . | . | . |
| Central bank policy rate, %, p.a., eop ³⁾ | 6.50 | 6.50 | 5.50 | 2.65 | 2.70 | 3.00 | 3.50 |
| Current account, EUR m ⁴⁾ | -492 | -1004 | -1000 | -740 | -1,010 | -990 | -850 |
| Current account, % of GDP | -5.7 | -10.4 | -9.3 | -7.1 | -9.0 | -8.4 | -7.0 |
| Exports of goods, BOP, EUR m ⁴⁾ | 1,657 | 1,672 | 1,892 | 1,620 | 1,720 | 1,770 | 1,880 |
| annual change in % | 17.7 | 1.0 | 13.1 | -14.4 | 6.2 | 2.9 | 6.2 |
| Imports of goods, BOP, EUR m ⁴⁾ | 3,928 | 4,462 | 4,850 | 4,410 | 4,780 | 4,930 | 5,130 |
| annual change in % | 19.6 | 13.6 | 8.7 | -9.1 | 8.4 | 3.1 | 4.1 |
| Exports of services, BOP, EUR m ⁴⁾ | 1,109 | 1,247 | 1,378 | 1,230 | 1,350 | 1,430 | 1,530 |
| annual change in % | 15.1 | 12.5 | 10.4 | -10.7 | 9.8 | 5.9 | 7.0 |
| Imports of services, BOP, EUR m ⁴⁾ | 838 | 947 | 1,064 | 800 | 900 | 950 | 1,010 |
| annual change in % | 10.5 | 12.9 | 12.5 | -24.8 | 12.5 | 5.6 | 6.3 |
| FDI liabilities, EUR m ⁴⁾ | 133 | 244 | 448 | 40 | . | . | . |
| FDI assets, EUR m ⁴⁾ | 9 | 29 | 36 | 0 | . | . | . |
| Gross reserves of CB excl. gold, EUR m ⁴⁾ | 2,346 | 2,628 | 2,731 | 3,079 | . | . | . |
| Gross external debt, EUR m ⁴⁾ | 5,725 | 6,430 | 6,626 | 7,100 | 7,500 | 7,800 | 7,900 |
| Gross external debt, % of GDP | 66.7 | 66.3 | 62.0 | 68.0 | 67.0 | 66.0 | 65.0 |
| Average exchange rate MDL/EUR | 20.83 | 19.84 | 19.67 | 19.74 | 20.0 | 21.0 | 22.0 |

Note: All series excluding data on districts from the left side of the river Nistru and municipality Bender.

1) Preliminary and wiiw estimates. - 2) Substandard, doubtful and loss credit portfolio. - 3) Overnight (refinancing) operations rate. - 4) Converted from USD.

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