

## Positive development of Moldovan exports in 2017

Moldovan exports have developed positively in 2017; they went up by 18% yoy. Exports to the EU have increased above average, thus contributing 70% to the export expansion. Also, exports to Turkey and Ukraine increased above average. Export growth to Belarus and Russia was only moderate, despite the economic recovery in both countries.

From a sectoral perspective, especially plant products and cable harnesses, which are attributed to the machinery sector, have contributed to export growth. Both product categories together account for 59% of the total increase.

Exports of plant products increased due to a good harvest and higher international commodity prices. Exports increased to all destinations.

This is different for cable harnesses, the export of which increased primarily to the EU. There is a close relationship between the free trade agreement with the EU (DCFTA), stronger investment into the manufacturing of cable harnesses and increased exports. Against this background it is in the interest of the Moldovan government to further support this positive development by continuing the implementation of the DCFTA and FDI attraction.

### Strong increase of exports

Exports of goods and services increased by USD 545 m, or 18% yoy, in 2017. Goods exports increased by USD 381 m, or 19% yoy. Exports of services increased slightly less with 16% yoy or USD 164 m.

### Export development



Source: National Bureau of Statistics and National Bank  
Note: Estimation for services based on the Q1-Q3 growth rate

The main drivers of increased services exports were travel services and transport. At the same time, also exports in the fields of information and communication as well as so-called other business services increased.

After exports decreased strongly in 2015 (-16%) and increased only moderately in 2016 (5%), the 2017 development is welcome news.

### Regional view: strong increase to EU and Turkey

Exports increased to all major destinations. The main share of the increase, however, can be attributed to the EU – which accounts for 70% of the total increase of goods exports. Also, exports to Turkey increased by notable 69%. This development is related to the free trade agreement between Moldova and Turkey, which came into force in November 2016.

Goods exports to the CIS – except for Ukraine – expanded below average.

### Regional development of goods exports

Region	2017, USD m	yoy change, %	yoy change, USD m
EU-28	1,597	20	265
CIS	463	12	49
Russia	255	9	21
Belarus	110	6	7
Ukraine	66	32	16
Turkey	104	69	43
Rest of the World	261	10	67
<b>Total</b>	<b>2,425</b>	<b>19</b>	<b>381</b>

Source: National Bureau of Statistics

The different amounts by which exports increased are also reflected by a further shift in the regional structure of exports. The EU share in Moldovan exports has further increased to 66% in 2017 (after 65% in 2016).

The share of Turkey has also gained one percentage point and now makes up 4%. The share of Russia has decreased again and amounted to 10% in 2017 (after 11% in 2016). This implies a continuation of the economic integration process with the EU.

### Sectoral view: growth in all important sectors

In 2017, exports of all key product groups increased. The highest absolute increase occurred in the category of plant products which include fruits, oil seeds and grain. The second most important driver of exports were cable harnesses, which are attributed to the machinery sector. Both product groups together accounted for 59% of the export increase.

**Exports by product groups**

Product group	2017, USD m	yoy change, %	yoy change, USD m
Plant products	662	25	133
Machinery*	390	31	92
Processed food	368	14	46
Textiles	347	13	39
Mineral products	29	101	14
Chemical products	99	9	8
Others	531	10	47
<b>Total</b>	<b>2,425</b>	<b>19</b>	<b>381</b>

Source: National Bureau of Statistics; \*mainly cable harnesses

This development is also reflected in the sectoral importance of the two product groups: the share of plant products in exports continued to increase and is now on the first place with almost 28%. The second rank – before processed food – is occupied by the machinery sector with 16%.

In general, exports increased on a broad base with the two mentioned categories as growth drivers.

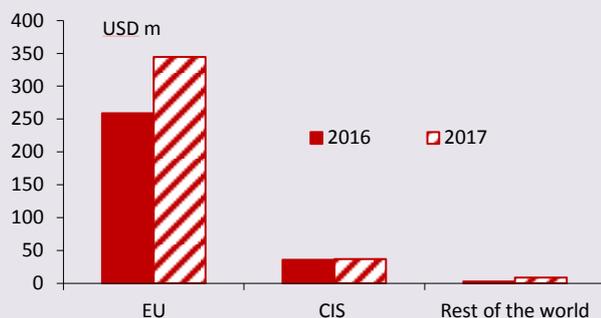
**Relationship between sectors and regions**

The question arises whether additional exports of selected product groups are primarily shipped to certain regions. Exports of plant products increased by USD 133 m, of which USD 79 m were destined to the EU (+23%), USD 43 m to the CIS (+43%) and USD 11 m to the rest of the world (+11%).

The reason for this increase was mainly a good harvest and higher food prices, which increased by 8% in 2017. Thus, there is no relationship between the increased exports of plant products and certain destination countries.

This is different for the export of cable harnesses, which are part of the machinery sector.

**Exports of the machinery sector**



Source: National Bureau of Statistics, own calculations

Exports of the machinery sector increased by USD 92 m in 2017. USD 85 m of these were destined to the EU (+33%). This implies that 92% of additional exports of cable harnesses can be attributed to the EU. Thus,

there exists an obvious relationship between the machinery sector and increased exports to the EU. This relationship is due to investment from the EU into the sector, which aims to boost exports into the EU. This, in turn, is supported by the DCFTA.

**Conclusion**

Even though the export increase of plant products is welcomed, it was nevertheless conditioned by special factors. The development in the machinery sector was, in contrast, a consequence of a successful policy of FDI attraction in combination with an intelligent trade policy. Against this background it would be sensible to further deepen the trade relations with the EU by the continued implementation of the DCFTA and a continuation of an active policy of FDI attraction in order to secure this development in the long run.

On the other hand, also trade with other regions like the CIS is of importance for Moldova. The existence of parallel free trade agreements, e.g. with the EU, but also with the CIS and other countries, is a locational advantage of Moldova. In this context we emphasize that free trade agreements should remain the key trade policy instrument of the country.

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